Annual Financial Disclosure Statement
Year Ended December 31, 2015

For additional information please visit www.AllinaHealth.org.
For past quarterly and annual disclosures please visit www.dacbond.com *or EMMA* www.emma.msrb.org.
Direct questions regarding disclosure information to treasury@Allina.com.

Allina Health System
Annual Financial Disclosure Statement
December 31, 2015

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OVERVIEW OF THE SYSTEM

Introduction

Allina Health System, doing business as Allina Health, is a Minnesota nonprofit corporation that delivers health care services to patients in Minnesota and western Wisconsin. As a mission-driven organization, Allina Health is committed to improving the health of the communities it serves. With almost 25,750 full and part-time employees, Allina Health is one of the largest employers in Minnesota. Allina Health consolidated net revenue for the year ended December 31, 2015 was $3.8 billion. As an integrated health system that includes hospitals; 1,330 employed physicians; emergency, ambulatory, homecare and hospice services; and an automated electronic medical record system, Allina Health is positioned as a leader in healthcare in the Minneapolis/St. Paul area and is well-positioned for health care reform.

Allina Health owns and operates twelve hospitals and jointly owns and operates one other hospital. These include urban tertiary care, suburban community and rural hospitals. Allina Health hospitals provided more than 103,500 inpatient admissions and over 1,334,000 outpatient visits during the year ended December 31, 2015. As of December 31, 2015, Allina Health hospitals had licensed bed capacity of 2,451 acute care beds, 1,736 of which were staffed for inpatient services.

Allina Health provides clinical services through its Allina Health Group and hospital-based physicians. Allina Health Group controls and operates 67 clinics, operates the clinical services lines, and employs approximately 735 physicians. Allina Health also operates three hospitalist programs on the Abbott Northwestern, United, and Unity hospital campuses, and employs approximately 175 hospitalists. Allina Specialty Associates, Inc. (“ASA”), operating under the name Minneapolis Heart Institute®, employs approximately 75 physicians, consisting of cardiologists, cardiothoracic and vascular surgeons. In addition, Allina Health hospitals directly employ approximately 345 specialty physicians including intensivists, perinatologists, and psychiatrists. Allina Health physicians and allied professionals generated more than 7,095,000 work RVUs[1] during the year ended December 31, 2015. The Allina Integrated Medical (“AIM”) Network aligns Allina Health physicians, 1,730 independent medical physicians, and over 20 hospitals to deliver market-leading quality and efficiency in patient care. Allina Health is a comprehensive health care system and has one of the largest physician networks in Minnesota.

The Minneapolis/Saint Paul metropolitan market has experienced stable population growth for the past several years. Overall hospital inpatient volume in the metropolitan market has declined around 8.7% from 2008 to 2014. Allina Health continues to have a stable and leading market share in the metropolitan area, with a 31.5% inpatient market share as of September 30, 2015.

[1] Relative Value Unit (“RVU”) is a measure of relative resource utilization.

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<u>Members Allina Health</u>

Obligated Group Members

The Allina Health Obligated Group ("Obligated Group") was created under the Master Trust Indenture dated October 1, 1998, between Allina Health System and Wells Fargo Bank Minnesota, National Association (the "Master Indenture"). The Master Indenture provides for a Credit Group, including the Obligated Group, members of which are jointly and severally liable for any debts and/or other obligations of each Obligated Group member and the Obligated Group as a whole. Several other forms of Credit Group membership are available to affiliated entities whose funds are available to satisfy any obligation of the Obligated Group under the Master Indenture. None of these forms of Credit Group Membership are currently in use.

Subsidiaries and Affiliates Outside the Obligated Group

Allina Health owns and operates a number of wholly owned direct and indirect subsidiaries outside of the Obligated Group, including Allina Integrated Medical ("AIM") Network, ASA, and WestHealth, Inc. ("WestHealth"). In aggregate, the Non-Obligated Group subsidiaries represented approximately $43 million or 1.1% of Allina Health consolidated net revenue for the year ended December 31, 2015. Allina Health contributes capital to certain subsidiaries, if needed.

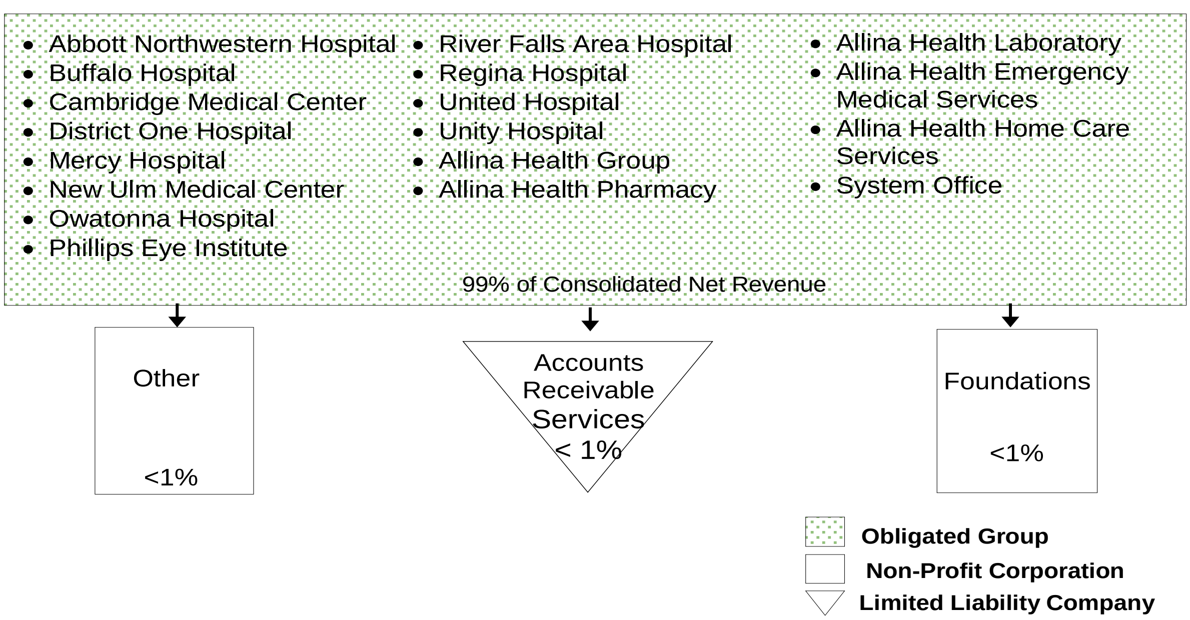
WestHealth is a Minnesota nonprofit corporation exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. AIM Network and ASA are Minnesota nonprofit taxable corporations.

Additional subsidiaries of Allina Health include Accounts Receivables Services, LLC, a limited liability company providing debt collection and other financial services, and seven foundations.

<u>Organization Chart</u>

The organizational structure of Allina Health is provided below. In addition, Allina Health holds interests in several smaller subsidiary corporations, limited liability companies, partnerships and joint ventures that have been excluded from the chart below because they collectively comprise less than one percent of net revenue.

Organization Chart with Percentage of December 31, 2015 Allina Health Net Revenue



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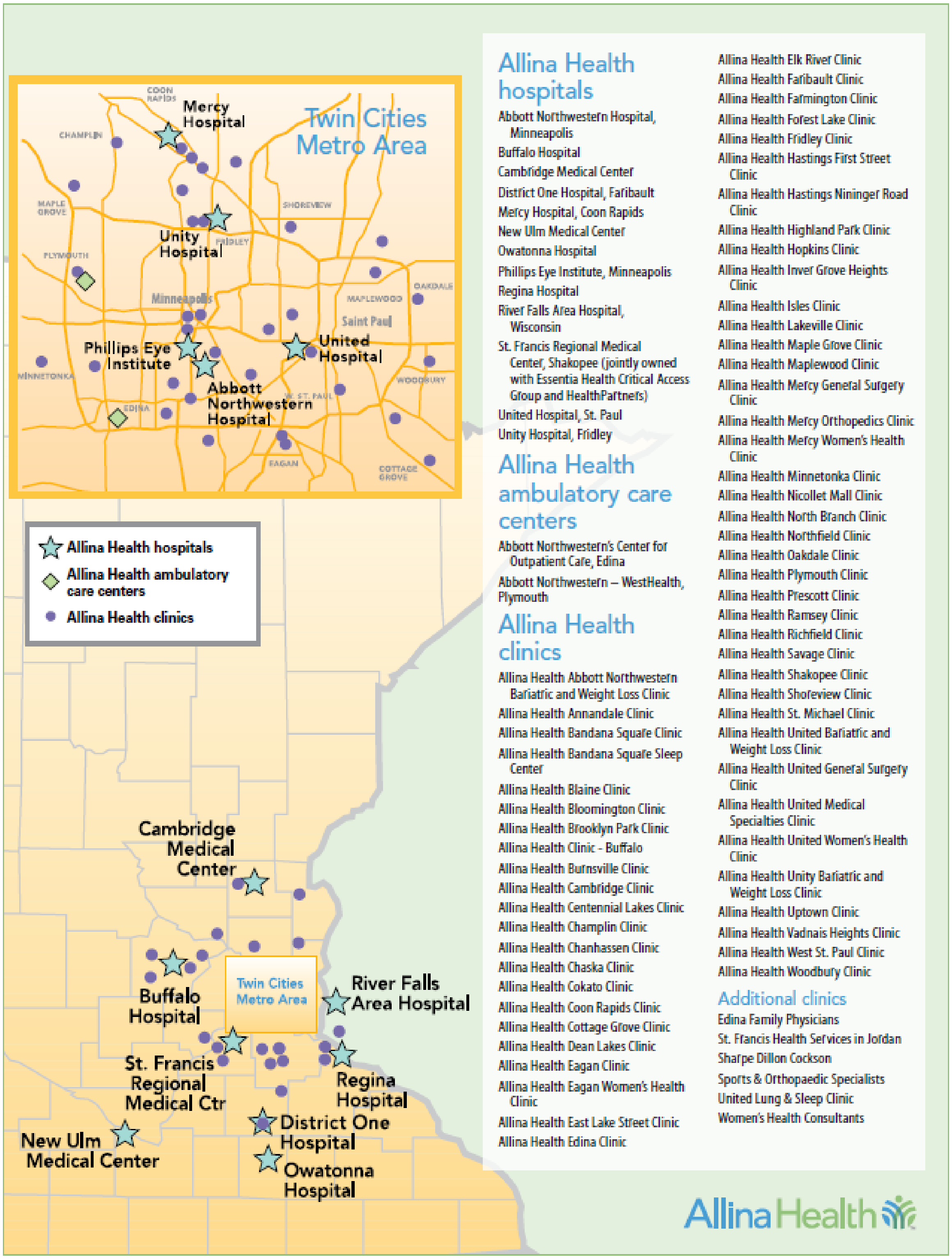
<u>Location of Care Delivery Sites</u>

The following map provides the locations of Allina Health owned (with the exception of St Francis) and operated hospitals and clinics.



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System Governance

Allina Health is a Minnesota nonprofit corporation exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. It is also exempt from state income taxation. Allina Health has several tax-exempt and taxable subsidiaries. Certain of Allina Health's real estate is also exempt from taxation under Minnesota law.

Allina Health is governed by single Board of Directors (“Board”) that meets on a quarterly basis over a two day period, including Committee meetings. The board oversees the operations of the entire Allina Health System. Allina Health’s regional hospitals have boards of trustees which function in an advisory capacity. Allina Health subsidiaries have separate boards which are subject to the reserved powers of the Allina Health Board.

In addition to the directors elected by the Board, the Chief Executive Officer of Allina Health serves ex officio, with the right to vote. The bylaws prescribe three-year terms for elected members and limit elected members to two successive terms. The immediate past Chairperson of the Board may be elected by the Board to hold office as director emeritus for a term of one year, and may be reelected for one additional one year term. Upon a recommendation by the Governance & Nominating Committee, an elected director (other than the emeritus director) may be elected to serve for up to three additional, consecutive, one-year terms. A former Allina Health Board member who has served the maximum term may return to Allina Health Board membership after a one year hiatus.

The Board retains approval authority over all significant strategic and policy decisions. Many decisions are approved by the Board through its approval of the consolidated annual strategic and financial plan. Capital expenditures over a certain level and any significant debt incurrence require separate action by the Board.

The Allina Health Board has seven standing committees: Audit and Compliance; Compensation; Finance; Investment; Governance and Nominating; Physician Governance; and Quality and Population Health.

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Board of Directors

The following are Allina Health Board members (as of December 31, 2015):

Name	Profession / Association	Board Relationship Since:
John Church (Chairperson)	SVP Supply Chain General Mills, Inc.	2013
John Allen, MD	Clinical Chief of Digestive Diseases Yale University	2012
William Beer	Retired President and CEO Wenger Corporation	2007
Barbara Butts-Williams, PhD	Dean of Business Capella University School of Business and Technology	2015
Laura Gillund	VP Human Resources and Professional Development C.H. Robinson Worldwide, Inc.	2015
Joseph Goswitz, MD	Pathologist Hospital Pathology Associates	2010
Greg Heinemann	Marketer, Executive, Entrepreneur	2014
Mark Jordahl	President, Wealth Management Group US Bancorp	2006
David Kuplic	Executive Vice President Advantus Capital Management Senior VP and Chief Investment Officer Securian Financial Group	2015
Hugh Nierengarten	Attorney (retired) Nierengarten & Hippert, Ltd. Attorneys at Law	2009
Gloria Perez	President and CEO Jeremiah Program	2008
Brian Rosenburg, PhD	President Macalester College	2013
Debbra Schoneman	CFO Piper Jaffray Companies	2013
Thomas S. Schreier, Jr.	Vice Chairman Nuveen Investments	2014
Abir Sen	Co-founder and CEO, Gravie	2014
Mark Sheffert	Chairman and CEO Manchester Companies, Inc.	2009
Sally Smith	President and CEO Buffalo Wild Wings, Inc.	2012
Darrell Tukua	Partner (retired) KPMG LLP	2014
Penny Wheeler, MD (Ex-Officio)	President and CEO Allina Health	2015

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Conflict of Interest

As required by Allina Health's Bylaws, the Allina Health Board has adopted a Conflict of Interest Policy that requires Board members, officers and key employees to promptly and fully disclose interests that can give rise to real, potential, or apparent conflicts of interest so that such interests can be assessed by the Audit & Compliance Committee of the Allina Health Board to determine whether they give rise to any such conflicts; and if so, whether the interest must be eliminated or the conflict can be adequately managed. Allina Health officers, directors, and key employees complete an annual conflict of interest disclosure statement. They also have an obligation to disclose interests on an ongoing basis between submissions of the annual disclosure statements.

The Allina Health Board also adopted a Disqualified Persons Policy. That policy requires a review of all proposed transactions and relationships involving Disqualified Persons by individuals who meet the independence requirements of the Rebuttable Presumption of Reasonableness under Internal Revenue Code Section 4958 and its accompanying regulations. The transaction is reviewed to ensure that it meets all criteria for qualifying for the Rebuttable Presumption.

Allina Health may transact business from time to time with firms and organizations with which Allina Health officers, directors, or key employees are affiliated. However, any involvement of such officers, directors, or key employees in decision-making with regard to each such arrangement is subject to the requirements of the Conflict of Interest Policy, the Disqualified Persons Policy, and other applicable Allina Health governing policies.

Organizational Design

Allina Health strategy is system-based, with strategic and capital planning conducted at the system level. The operating units develop business plans consistent with the system strategic plan. Several departments within Allina Health are managed centrally to ensure access to capital, a common approach to liability and risk issues, and direction of capital to achieve suitable returns. Management teams are in place to oversee the strategic direction and daily operations of the organization.

The Executive Leadership Team makes system-level decisions. This team includes the President and Chief Executive Officer; Executive Vice President, Administration and Chief Financial Officer; Chief Human Resource Officer; Chief Information Officer; Chief Medical Officer; General Counsel; Executive Vice President, Network/Integration Division; Executive Vice President, Allina Health Group; and Presidents of Abbott Northwestern, Mercy, and United hospitals. The Executive Leadership Team provides an appropriate blend of clinical, operational, and functional staff expertise to ensure its ability to set strategy and oversee the execution of the organization's strategic plan.

The Clinical Leadership Team (CLT), is comprised of the Chief Medical Officer; who serves as its chair, along with the chairs of the Executive Quality Committees for Hospitals, Allina Health Group and Home Care; the Quality Control Chair; one Metropolitan Hospital Vice President of Medical Affairs representative of the Hospital Division Quality Committee; one Community Hospital Vice President of Medical Affairs representative; and the chair of the Nurse Executive Council. The CLT provides system level coordination and oversight of clinically-related issues across the continuum of care. It is accountable to the Allina Health Quality Council and serves as its Executive Committee.

Centralized Functions

Allina Health provides certain management functions to its hospitals and subsidiaries through a corporate shared-service structure, which is generally focused on risk management and strategic direction of the organization as well as providing financial economies of scale. These functions include strategy and business development, marketing and communications, legal, risk management, insurance, information systems, community benefit and engagement, philanthropy, compliance, treasury, public policy and government relations, and certain components of finance, public relations, human resources, purchasing, real estate, clinical knowledge management, clinical integration, clinical service lines and quality resources, and care management.

Allina Health negotiates third-party payer contracts through a centralized payer relations and contracting department. This approach permits Allina Health to concentrate its expertise in market conditions and payer methodology in a single group and to maintain a unified, coherent approach to dealing with third party payers.

Allina Health has a centralized revenue management function to manage the complex process of registering patients, billing for services performed, and collecting payment for services.

Executive Leadership Team

Following are the Executive Leadership Team members and their biographies:

Penny Wheeler, M.D. (57) –*President and Chief Executive Officer*
Dr. Wheeler is the President and Chief Executive Officer. Prior to her appointment as CEO, effective January 1, 2015, she served as the Chief Clinical Officer, a position she held since March 2006. As a board-certified obstetrician/gynecologist, Dr. Wheeler has served patients at Women's Health Consultants in Minneapolis and taught as an associate professor of obstetrics and gynecology at the University of Minnesota. She has served as President of Abbott Northwestern Hospital's medical staff, as Chair and Vice-Chair of the hospital's obstetrics and gynecology department and on numerous committees. Dr. Wheeler served on the Allina Health Board of Directors from 2002 until 2006, where she was Chair of the Quality Committee. Her educational background includes an undergraduate degree with honors from the University of Minnesota, and Doctor of Medicine from the University of Minnesota Medical School.

Chris Bent (45) – *Executive Vice President, Allina Health Group*
Ms. Bent leads the Allina Health Group, responsible for integrating primary care, specialty care and clinical service line capabilities to better serve the patients of Allina Health. Earlier in her career, Ms. Bent was the chief operating officer of the Minneapolis Heart Institute® where, in conjunction with the physician president, she provided professional management to the 125-bed Heart Hospital within Abbott Northwestern Hospital and Minneapolis Heart Institute®'s extensive outreach program. Her background is in physician practice management in both independent practices and integrated health care delivery systems. Ms. Bent graduated from Carleton College in Northfield, Minnesota with a Bachelor's Degree in Psychology and obtained her Master of Health Services Administration from the University of Minnesota.

Duncan Gallagher (56) – *Executive Vice President, Chief Administrative Officer and Chief Financial Officer*
Mr. Gallagher was appointed Chief Financial Officer in August 2009. Prior to joining Allina Health, Mr. Gallagher was the Executive Vice President and Chief Operating/Financial Officer of Iowa Health System based in Des Moines, Iowa. He was also a partner in the healthcare consulting practice of KPMG LLP in Dallas, Texas with twelve years of experience at KPMG. Mr. Gallagher previously held various finance positions with HealthEast Care System in St. Paul, Minnesota. Mr. Gallagher received his Bachelor's Degree in Accounting from the University of South Dakota, and a Master of Business Administration from the University of Minnesota. In addition to Finance, Mr. Gallagher also has operational responsibility for Information Systems, Payer Relations and Contracting, Lab, Supply Chain Management and Revenue Cycle Management.

Robert Wieland, M.D. (52) - *Executive Vice President, Network/Integration Division*
Dr. Wieland assumed the role of Executive Vice President, Network/Integration Division in November 2014. Dr. Wieland has been employed by Allina Health in various roles since 1994, and served as the Executive Vice President, Clinic and Community Division from November 2008 until November 2014, and prior to that he was Vice President of Medical Affairs at Abbott Northwestern Hospital. Earlier in his career he was District Medical Director within the Allina Medical Clinic and is co-founder of the Hospitalist Service at Abbott Northwestern Hospital. Dr. Wieland earned his Bachelor's Degree in Mechanical Engineering at the University of Minnesota, medical degree at the University of Minnesota Medical School and Internal Medicine training at Abbott Northwestern Hospital. Dr. Wieland has accountability for the Allina Integrated Medical Network, Strategy and Business Development, Care Management, Allina Health Pharmacy; Allina Home Oxygen and Medical Equipment; and Allina Home Care, Hospice and Palliative Care; and Marketing and Communication.

Elizabeth Truesdell Smith (52) – *Senior Vice President, General Counsel*
Ms. Smith assumed the role of General Counsel in February 2009. She joined the Allina Health Legal and Risk Management department in 2000. In 2007, Ms. Smith began leading Allina Health's medical-legal team as its Vice President. Before coming to Allina Health, Ms. Smith practiced as a trial lawyer for eight years with a focus on hospital and health law, medical professional liability and medical products liability litigation. She has worked in biomedical laboratory research at Harvard Medical School and in biomedical ethics at Boston University and the University of Minnesota. Ms. Smith earned a Master's of Public Health with a health law and bioethics concentration from Boston University School of Public Health and a Juris Doctor from the University of Minnesota Law School. Ms. Smith also has operational responsibility for Risk Services.

Ben Bache-Wiig, M.D. (58) – *System Vice President and President, Abbott Northwestern Hospital*
Dr. Bache-Wiig was appointed President of Abbott Northwestern Hospital in October 2011. He served as Vice President of Medical Affairs for Abbott Northwestern Hospital since 2009. Dr. Bache-Wiig was previously Medical Director and Physician President of the North Clinic for 20 years. Dr. Bache-Wiig completed his undergraduate studies at Michigan State University and Doctor of Medicine at the University of Wisconsin. He is board certified in internal medicine. Dr. Bache-Wiig also has operational responsibility for New Ulm Medical Center, Owatonna and District One Hospitals, WestHealth Ambulatory Center, and medical operations.

Sara J. Criger (54) **–** *System Vice President and President, Mercy Hospital*
Ms. Criger was appointed President of Mercy Hospital in July 2012. Prior to joining Allina Health, Ms. Criger was Vice President, HealthEast Care System and Chief Executive Officer, St. Joseph's Hospital, both based in St. Paul, Minnesota, for five years. Ms. Criger has more than 28 years of experience in managing large hospitals and clinics. Ms. Criger holds a Bachelor's Degree in Business Administration from Western Connecticut State University and a Master of Health Services Administration from the University of St. Francis. Ms. Criger also has operational responsibility for Buffalo, Cambridge and Unity Hospitals and patient experience.

Tom O'Connor (49) – *System Vice President and President, United Hospital*
Mr. O'Connor was appointed President of United Hospital in January 2012. Previously, he served as President of Mercy Hospital for five years and President of St. Francis Regional Medical Center for five years. Before St. Francis, he served for a year as the Divisional Vice President of Operations of Allina Healthcare Improvement Resources and for four years as the Vice President of Operations of Allina Regional Health Services. He also spent three years as Chief Operating Officer of HCA Capital Medical Center in Tallahassee Florida and two years as an Assistant Administrator and Quality Coach at the HCA Gulf Coast Hospital in Panama City, Florida. Mr. O'Connor holds a Bachelor of Arts Degree from St. Olaf College, a Master of Health Services Administration and a Master of Business Administration from the University of Minnesota. Mr. O'Connor also has operational responsibility for Regina and River Falls Area Hospitals; St. Francis Regional Medical Center; Allina Health Emergency Medical Services; and staffing management.

Susan Heichert (56) – *Chief Information Officer*
Ms. Heichert returned to Allina Health as Chief Information Officer in August 2010, after a brief departure. Ms. Heichert was part of the team that implemented the Electronic Health record. She has been working in healthcare Informatics for over 25 years in various capacities. Ms. Heichert holds a Bachelor Degree in Nursing from the University of Maryland and a Masters from the University of Minnesota.

Christine Moore (46) – *Senior Vice President, Chief Human Resource Officer*
Ms. Moore joined Allina Health as Senior Vice President, Chief Human Resource Officer in August 2015. Prior to joining Allina Health, Ms. Moore was Vice President of Talent and Organization Development of Ecolab. Ms. Moore holds a Bachelor Degree in Economics from Scripps College and a doctorate in organizational psychology from Claremont Graduate University.

Timothy Sielaff, M.D. (53) – *Chief Medical Officer and Senior Vice President, Specialty Care and Research*
Dr. Sielaff was appointed Chief Medical Officer and Senior Vice President, Specialty Care and Research in February 2015. Dr. Sielaff has been a hepatopancreatobiliary surgeon for 15 years. Dr. Sielaff's educational background includes a Bachelor of Science Degree from the University of Wisconsin-Madison, a Doctor of Medicine from the Medical College of Virginia, a Doctor of Philosophy from the University of Minnesota-Department of Surgery, and a Master of Health Care Administration from the University of St. Thomas.

Recent Initiatives and Developments

District One Hospital

Allina Health and Rice County District One Hospital entered into an Affiliation Agreement that included the transfer of substantially all assets and liabilities of Rice County District One Hospital to Allina Health on January 1, 2015. Legislative approval for the transaction was obtained from the Minnesota State Legislature on April 30, 2014. District One Hospital is a 49 bed community health care facility located in Faribault, Minnesota.

Arrangement with Health Catalyst

Allina Health and Health Catalyst entered into an arrangement effective January 1, 2015 to create a national model for data-driven health delivery. The arrangement includes a managed services agreement whereby Health Catalyst provides data warehouse, analytics and other services to Allina Health and an exclusive license of certain Allina Health intellectual property related to analytics and outcomes improvement, including a deep set of capabilities in areas such as predictive modeling, clinical care improvement and readmissions reduction, to Health Catalyst in exchange for Allina Health receiving an equity interest in Health Catalyst. Health Catalyst provides data warehouse platform and analytics applications to more than 1,900 client hospitals and clinics.

Northwest Metro Obstetrics (“OB”) Project

In March 2013, the Allina Health Board of Directors approved a $30.2 million investment in a Northwest Metro OB Strategy which includes construction of a new tertiary care Mother Baby Center at Mercy Hospital, including a higher acuity Special Care Nursery leased and operated by Children’s Hospitals and Clinics (“Children’s”); and renovation of the current Mercy Hospital maternity unit to a 23-bed general nursing unit. The new facility opened in July of 2015.

With the opening of the new facility, the obstetrical services offered at Mercy and Unity hospitals were combined into one all-inclusive program at The Mother Baby Center at Mercy Hospital. The consolidation into one comprehensive program and location will allow patients easy access to the full complement of services offered.

United Hospital OB Project

In December 2014, the Allina Health Board of Directors approved a capital investment in The Mother Baby Center –St. Paul in collaboration with Children’s. Allina Health funded $7.9 million and $8.0 million was funded through philanthropic funds. Phase one of the project was completed in October 2015, and phase two is scheduled to be completed in fall 2016.

Abbott Northwestern Hospital Emergency Department Renovation and Expansion

In June 2015, the Allina Health Board of Directors approved a capital investment to renovate and expand the Abbott Northwestern Hospital Emergency Department. Total capital cost of this project is $20.7 million, of which Allina Health will fund $13.2 million and the remaining $7.5 million will be funded through philanthropic funds. The project is expected to be complete in 2016.

North Metro Hospital Care

Allina Health will be integrating hospital care in the north metro region through a “One Hospital, Two Campuses” initiative in the Mercy and Unity hospitals service area. Allina Health will reconfigure the services provided at the two hospitals over the next few years. The reconfiguration will ensure access to high quality care and service and improve the practice and work environment for providers and staff. The two campuses will function as one hospital, each providing its specific services for the entire north metro region, rather than both hospitals duplicating most services. However, Allina Health will continue to offer emergency care and other basic care services at each campus that patients need most often. The reconfiguration will continue to optimize the services around what is best for patients and the community. Allina Health will invest approximately $103 million in the reconfiguration and related infrastructure needs over the next several years.

Medicare and Medicaid Electronic Health Records Incentive Programs (Meaningful Use)

The American Recovery and Reinvestment Act of 2009 established the Health Information Technology for Economic and Clinical Health (HITECH) Act. The HITECH Act authorized the Centers for Medicare & Medicaid Services (CMS) to establish the Meaningful Use Program to achieve national healthcare goals through the use of electronic health records. Through the Meaningful Use Program, organizations and eligible providers will receive incentives for meeting steadily more challenging electronic health record use criteria from 2011 through 2015.

The hospitals of Allina Health attested with the federal government that they met 19 objective measures and 15 quality measures in Stage Two, Year Two of Meaningful Use. The physicians of Allina Health also continue to meet Stage One measures along with the new Stage Two requirements of the Meaningful Use physician attestation process. As a result, Allina Health has recorded Medicare payments of $3.7 million, $14.8 million, $23.5 million and $20.4 million for 2015, 2014, 2013 and 2012, respectively.

ICD-10

The U.S. Department of Health & Human Services has adopted the International Classification of Diseases (ICD)-10 code sets as the HIPAA standards to replace the ICD-9 codes sets for diagnosis and procedure codes. Allina Health successfully implemented ICD-10 on October 1, 2015. Allina Health will continue to participate in the Minnesota ICD-10 Collaborative with 24 other providers and payers.

2015 Debt Issuance

In September 2015, Allina Health issued $250 million in fixed rate taxable bonds for the purpose of funding new projects and strategic initiatives.

Credit Ratings

In August 2015, Fitch Ratings affirmed Allina Health's bond rating of AA-. The outlook is stable.

In August 2015, Standard & Poor's Ratings Services affirmed the AA- rating of Allina Health. The outlook is stable.

In August 2015, Moody's Investor Services affirmed Allina Health's bond rating of Aa3. The outlook is stable.

The complete rating agency reports are available at www.dacbond.com; www.moodys.com; www.fitchratings.com; or www.standardandpoors.com.

Awards and Recognition

In April 2015, Allina Health was named one of the nation's top five large health systems by Truven Health Analytics, a leading provider of data-driven analytic solutions and services. Truven Health Analytics ranked the top five large U.S. health systems (greater than $1.5 billion in annual revenue) based on balanced, superior system-wide performance in care quality, patient satisfaction, coordination of care, cost of care and operational efficiency.

In July 2015, U.S. News & World Report named Abbott Northwestern, Mercy, and Unity hospitals among the top five hospitals in the metro and top ten in Minnesota in the 2015-2016 Best Hospitals rankings. Abbott Northwestern Hospital retained first place ranking for the Best Hospital in the Twin Cities and second best in Minnesota.

In September 2015, Allina Health was presented with American Health Information Management Association's (AHIMA) Grace Award. The AHIMA Grace Award: In Recognition of Excellence in Health Information Management honors healthcare delivery organizations that demonstrate outstanding and innovative approaches in health information management. Allina Health was recognized for exemplifying a model of "HIM Without Walls" with HIM professionals involved at a variety of program levels; chairing and participating on several enterprise-wide committees; serving as subject matter experts for electronic medical record user groups; and providing education and training.

ALLINA HEALTH SYSTEM

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Reports Thereon)

ALLINA HEALTH SYSTEM

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KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Allina Health System:

We have audited the accompanying consolidated financial statements of Allina Health System (the System), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allina Health System as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Minneapolis, Minnesota
March 9, 2016

ALLINA HEALTH SYSTEM

Consolidated Balance Sheets

December 31, 2015 and 2014

(Dollars in thousands)

Assets		**2015**	**2014**
Current assets:			
Cash and cash equivalents	$	349,115	180,985
Short-term investments		351,062	357,511
Patient accounts receivable, less allowances for uncollectible accounts of $74,216 in 2015, $70,285 in 2014		465,058	419,522
Inventories		61,297	55,311
Other current assets		100,341	109,389
		1,326,873	1,122,718
Investments		1,247,229	1,180,534
Investments with limited uses		149,313	150,162
Land, buildings, and equipment, net		1,142,461	1,041,950
Other assets		267,385	246,553
Total assets	$	4,133,261	3,741,917
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	434,851	428,185
Other current liabilities		119,041	101,760
		553,892	529,945
Long-term debt		850,508	613,294
Other liabilities		415,578	420,545
Total liabilities		1,819,978	1,563,784
Net assets:			
Unrestricted		2,152,102	2,008,030
Temporarily restricted		105,903	115,155
Permanently restricted		55,278	54,948
Total net assets		2,313,283	2,178,133
Total liabilities and net assets	$	4,133,261	3,741,917

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2015 and 2014

(Dollars in thousands)

		2015	2014
Revenues:			
Patient service revenue net of contractual adjustments	$	3,620,983	3,465,733
Provision for bad debts		(98,536)	(93,547)
Net patient service revenue		3,522,447	3,372,186
Other operating revenue		274,445	231,495
Total revenues		3,796,892	3,603,681
Expenses:			
Salaries and benefits		2,322,105	2,240,474
Supplies and services		858,331	787,580
Depreciation and amortization		155,253	147,844
Financing costs		28,245	24,392
State assessments and taxes		79,823	79,481
Utilities and maintenance		74,612	74,317
Other operating expenses		129,502	103,649
Total expenses		3,647,871	3,457,737
Operating income		149,021	145,944
Nonoperating gains (losses):			
Investment return		(33,234)	46,990
Losses on interest rate swap agreements		(17,608)	(42,800)
Contributions received in acquisitions		34,849	—
Other		(2,507)	(3,243)
Excess of revenues over expenses	$	130,521	146,891

ALLINA HEALTH SYSTEM

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2015 and 2014

(Dollars in thousands)

		2015	2014
Unrestricted net assets:			
Excess of revenues over expenses	$	130,521	146,891
Net assets released from restrictions for capital purposes		9,698	7,080
Amortization of unrealized loss on interest rate swap agreement		874	874
Other		2,979	(4,251)
Increase in unrestricted net assets		144,072	150,594
Temporarily restricted net assets:			
Contributions		21,399	31,884
Investment return		(2,231)	4,360
Net assets released from restrictions		(27,400)	(21,151)
Other		(1,020)	1,137
(Decrease) increase in temporarily restricted net assets		(9,252)	16,230
Permanently restricted net assets:			
Contributions for endowment funds		371	396
Investment return		(41)	34
Other		—	(515)
Increase (decrease) in permanently restricted net assets		330	(85)
Increase in net assets		135,150	166,739
Net assets at beginning of year		2,178,133	2,011,394
Net assets at end of year	$	2,313,283	2,178,133

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014

(Dollars in thousands)

		2015	2014
Operating activities:			
Increase in net assets	$	135,150	166,739
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization		155,253	147,844
Provision for bad debts		98,536	93,547
Goodwill impairment		4,110	1,454
Gain on sales of land, buildings, and equipment		(524)	(2,236)
Unrealized loss on interest rate swaps		4,249	29,273
Realized and unrealized losses (gains) on investments, net		61,035	(27,775)
Restricted contributions		(21,770)	(32,280)
Contributions of cash for long-lived assets		(1,504)	(3,288)
Contributions received in acquisitions		(34,849)	—
Earnings on joint ventures		(12,310)	(12,988)
Pension plan expenses		538	8,666
Pension plan contributions		(2,358)	(1,347)
Changes in assets and liabilities net of acquisition:			
Change in accounts receivable and other current assets		(143,647)	(142,734)
Change in accounts payable and other current liabilities		38,483	8,103
Change in other assets and liabilities		(5,474)	(6,281)
Net cash and cash equivalents provided by operating activities		274,918	226,697
Investing activities:			
Proceeds from sales of land, buildings, and equipment		8,613	39,458
Purchases of land, buildings, and equipment		(218,328)	(169,747)
Contributions of cash for long-lived assets		1,504	3,288
Cash received in acquisitions		987	—
Purchases of investments classified as trading		(117,130)	(64,910)
Purchases of investments with limited uses		(472)	(4,597)
Draws on construction funds		13	—
Distributions received from joint ventures		10,072	11,767
Contributions to joint ventures		(21,066)	(1,187)
Net cash and cash equivalents used in investing activities		(335,807)	(185,928)
Financing activities:			
Restricted contributions, net		24,856	23,907
Change in outstanding checks payable		(22,329)	3,609
Principal payment on line of credit		—	(19,965)
Proceeds from issuance of note payable		250,000	20,165
Deferred debt acquisition costs		(2,632)	—
Principal payments of long-term debt		(20,876)	(20,204)
Net cash and cash equivalents provided by financing activities		229,019	7,512
Increase in cash and cash equivalents		168,130	48,281
Cash and cash equivalents at beginning of year		180,985	132,704
Cash and cash equivalents at end of year	$	349,115	180,985
Schedule of noncash financing activity:			
Capitalized lease	$	10,756	—

See accompanying notes to consolidated financial statements.

(1) Organization and Basis of Presentation

Allina Health System (the System) is a not-for-profit corporation whose consolidated financial statements include the accounts of its owned subsidiaries and controlled affiliates.

The System consists of five hospitals located in the Minneapolis and Saint Paul metropolitan area, seven hospitals located outside the metropolitan area, physician clinics employing approximately 1,330 providers, various other health care-related entities, and seven foundations supporting health-related services.

In January 2015, the System acquired District One Hospital, and became the sole owner (note 19).

All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and short-term investments with an original maturity of three months or less from the date of purchase that have not otherwise been classified as long-term assets due to a designation for long-term purposes.

(c) Outstanding Checks

Outstanding checks that are book or bank overdrafts are classified as cash flows from financing activities in the consolidated statement of cash flows.

(d) Pledges Receivable

Pledges are recorded in the period that the pledges are made and represent unconditional promises to give. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. A discount on each pledge is computed using the risk-free interest rate available at the time the pledge was made for the duration of the pledge. An allowance for uncollectible pledges receivable is determined based on a review of estimated collectibility and historical experience.

(e) Derivative Financial Instruments

The System uses interest rate swaps as part of its risk-management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate swaps are used to hedge identified and approved exposures. Interest rate swaps are recognized as either assets or liabilities in accordance with the netting provisions in the counterparty agreement and are measured at fair value.

The System accounts for its interest rate swaps in accordance with Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, which requires entities to recognize all derivative instruments as either assets or liabilities in the consolidated balance sheets at their respective fair values.

For interest rate swaps that are not designated as cash flow hedges, gains or losses resulting from changes in the fair values of the interest rate swaps are reported as nonoperating gains or losses. Any differences between interest received and paid under nonhedged swap agreements are reported with the change in fair value of the swaps as nonoperating gains or losses.

For interest rate swaps that are designated and qualify as cash flow hedges, the effective portion of the gains or losses resulting from changes in the fair value is reported as a component of unrestricted net assets. The ineffective portion, if any, is reported in excess of revenues over expenses in the current period. If hedging relationships cease to be highly effective, gains or losses on the interest rate swaps would be reported in excess of revenues over expenses and accumulated losses would be amortized into excess of revenues over expenses over the remaining life of the debt. Any differences between interest received and paid under the interest rate swap designated as a cash flow hedge is recorded as a component of interest expense. As of December 31, 2015 and 2014, the System does not have any swaps designated as cash flow hedges.

(f) Inventories

Inventories include drugs and supplies and are recorded at the lower of cost or market on a first-in, first-out (FIFO) basis.

(g) Bond Issue Costs

Costs of bond issuance are deferred and amortized on a straight-line basis over the shorter of the term of the related indebtedness or related liquidity facility.

(h) Investments in Unconsolidated Entities

Investments in entities in which the System has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting and included in other assets in the consolidated balance sheets. The System's share of net earnings or losses of the entities is included in other operating revenue (note 8).

(Dollars in thousands)

(i) Investments with Limited Uses

Investments with limited uses are reported at fair value and include assets held by trustees for repayment of long-term debt, assets in escrow for capital projects, vendor deposits, and donor-restricted funds.

(j) Land, Buildings, and Equipment

Land, buildings, and equipment are carried at cost and depreciated using the straight-line method over their estimated useful lives. Interest cost, net of related interest income, incurred during the period for construction of capital assets is capitalized as a component of the cost of acquiring those assets and totaled $444 and $243 for 2015 and 2014, respectively.

The following useful lives are used in computing depreciation:

Land improvements	5–25 years
Buildings	25–40 years
Building additions and improvements	10–20 years
Equipment	2–15 years

(k) Deferred Income Taxes

The System's taxable subsidiaries record deferred income taxes due to temporary differences between financial reporting and tax reporting for certain assets and liabilities. The System accounts for income taxes under the asset-and-liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The System follows ASC Topic 740, *Income Taxes* (ASC 740), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740 prescribes a more-likely than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC 740, tax positions will be evaluated for recognition, derecognition, and measurement using consistent criteria and will provide more information about the uncertainty in income tax assets and liabilities. As of December 31, 2015 and 2014, the System does not have any significant assets or liabilities recorded for uncertain tax benefits. The System has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions.

(l) Professional and General Liability Claims

The System is insured for professional and general liability claims in excess of self-insured retention limits with an external insurance carrier.

(m) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors and are required to be maintained in perpetuity.

(n) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets in the consolidated statements of operations and changes in net assets. In the absence of a donor specification that restricts income and gains on temporarily restricted gifts, such income and gains are reported as income of unrestricted net assets. In order to protect permanently restricted gifts from a loss of purchasing power, the System uses a spending-rate policy to determine the portion of investment return that can be used to support operations of the current period.

The System reports gifts of equipment or other long-lived assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(o) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services provided, including estimated retroactive adjustments due to audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as such revenue is no longer subject to such audits, reviews, and investigations.

The provisions for bad debts and charity care are based upon management’s assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. After satisfaction of amounts due from insurance, the System follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the System.

(p) Other Operating Revenue

Other operating revenue includes income from investments in unconsolidated entities, rental income, pharmacy and ancillary sales, and grant revenue. Grant revenue includes Meaningful Use-Health Information Technology for Economic and Clinical Health Act Stimulus Grants of $3,695 and $14,848 for 2015 and 2014, respectively.

(q) Excess of Revenues over Expenses

Excess of revenues over expenses includes operating income and nonoperating gains and losses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments not classified as trading securities and interest rate swaps designated as cash flow hedges, and changes in liability relating to defined-benefit plans not marked to market.

(r) Adoption of New Accounting Standards

On December 31, 2015, the System adopted guidance under Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which amended ASC Topic 820, *Fair Value Measurement*. The amendments remove the requirement to categorize within the fair value hierarchy investments whose fair values are measured at net asset value (or its equivalent). The adoption of the authoritative guidance did not have a material effect on the System's consolidated financial statements.

(s) Investment Securities

The System classifies its investments as trading or available-for-sale. The available-for-sale investments include those held whose uses are limited. All other investments are classified as trading. Trading and available-for-sale investments, including bond funds and construction funds, are recorded at fair value. Investments in alternative investments are recorded at net asset value as a practical expedient to fair value. Unrealized gains and losses on trading securities are included in excess of revenues over expenses. Unrealized gains and losses on available-for-sale investments are excluded from excess of revenues over expenses and are reported as a separate component of other changes in unrestricted net assets.

(t) Fair Value Measurements

The System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The System determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the System follows the fair value hierarchy, as outlined in the fair value measurements and disclosures accounting guidance, which distinguishes between observable and unobservable inputs.

(Dollars in thousands)

(3) Net Patient Service Revenue

The System has agreements with third-party payers who provide payments for health care services at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, and per diem payments. Other payments are received in the form of pay for performance, shared savings, care management, or medical home management per patient fees.

The System utilizes a process to identify and appeal certain settlements by Medicare and other third-party payers. Additional reimbursement is recorded in the year the appeal is successful. During 2015 and 2014, successful appeals, cost report settlements, and other adjustments to prior year estimates, resulted in an increase in net patient service revenue of $1,820 and $39,679, respectively. The System recognizes significant amounts of patient service revenue at the time services are rendered even though it does not assess the patient's ability to pay. For uninsured patients who do not qualify for charity care, the System recognizes revenue on the basis of discounted rates. On the basis of historical experience, a significant portion of the System's patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts related to uninsured patients and self-pay balances of insured patients who are unable or unwilling to pay for the services provided. The System also records a provision for bad debts related to self-pay balances of insured patients. Patient service revenue net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period by major payer is as follows:

	2015	2014
Medicare and Medicaid	40%	39%
Managed care	54	55
Commercial and other	4	3
Self-pay	2	3
	100%	100%

(Dollars in thousands)

The System grants credit without collateral to its patients, most of whom are residents in the communities that it serves and are insured under third-party payer agreements. The System reduces its patient accounts receivable by an allowance for doubtful accounts. Deductibles and coinsurance are classified as either third-party or self-pay receivables on the basis of which party has the primary remaining financial responsibility, while the total gross revenue remains classified based on the primary payer at the time of service. In evaluating the collectibility of accounts receivable, the System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. The System used a consistent methodology to estimate the allowance and provision for bad debts in the years 2015 and 2014. For receivables associated with self-pay patients after satisfaction of amounts due from insurance, the System follows established guidelines for charging off certain past-due patient balances against the allowance for doubtful accounts, which was $78,849 and $81,114 in the years 2015 and 2014, respectively. The System has not changed its charity care or uninsured discount policies during the years 2015 and 2014. The System does not maintain an allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers. The mix of net patient accounts receivable by major payer as of December 31 consists of the following:

	2015	2014
Medicare and Medicaid	37%	34%
Managed care	44	42
Self-pay	12	16
Commercial and other	7	8
	100%	100%

Two managed care payers accounted for approximately 37% and 36% of net patient service revenue in 2015 and 2014, respectively. Amounts due from these two managed care payers accounted for approximately 29% and 25% of net patient accounts receivable at December 31, 2015 and 2014, respectively.

(4) Community Benefits

The System follows Internal Revenue Service reporting guidelines for categories of community benefit provided in the service areas of the System. The major components are defined below.

(a) Cost of Providing Charity Care (Also Referred to as Financial Assistance)

The System provides medical care without charge or at reduced cost to residents of the communities that it serves through the provision of charity care. Policies have been established to identify charity care cases that meet certain guidelines for a patient’s ability to pay for services. The cost of providing charity care is measured by applying a cost-to-charge ratio to the charges identified as charity care.

(b) Costs in Excess of Medicaid Payments

The System provides services to public program enrollees (Medicaid). Such public programs typically reimburse at amounts less than cost.

(c) Medicaid Surcharge

The System is a participant in the Medicaid Surcharge program. The current program includes a 1.56% surcharge on a hospital's net patient service revenue (excluding Medicare revenue). Reported amounts are net of any disproportionate share adjustments.

(d) Costs of Other Means-Tested Government Programs (MinnesotaCare Tax)

The System also participates in the funding of medical care for the uninsured through a MinnesotaCare tax of 2% on certain net patient service revenue. Patients who are unable to get insurance through their employer are eligible to participate in MinnesotaCare.

(e) Community Health Improvement Services

In the furtherance of its charitable purpose, the System provides a wide variety of community health improvement programs and activities to the various communities that it serves in response to specific needs within those communities. Examples are programs and activities designed to improve the quality of life and build healthier communities. Community services activities include social service programs, health screenings, in-home caregiver services, support counseling for patients and families, crisis intervention, health enhancement and wellness programs, classes on specific conditions, and telephone information services. The System provides these services through programs such as the Backyard Initiative; Free Bikes 4 Kidz; New Shoes, Healthy Kids; Neighborhood Health Connection; Health Powered Kids; and Change to Chill.

(f) Subsidized Health Services

The System provides necessary health care services, which include 24-hour emergency services to the community and behavioral health services. These clinical services are provided despite financial losses so significant that negative margins remain after removing the effects of charity care, Medicaid shortfalls, and bad debt. These services are provided because they meet an identified community need and, if no longer offered, would either be unavailable in the area or fall to the responsibility of government or another not-for-profit organization to provide.

(g) Health Profession Education

The System provides education and training programs and financial assistance for providers, health care students, and other health professionals.

(h) Research

The System participates in clinical and community health research that is shared with the health care community, including clinical research related to integrative medicine and cancer interventions as well as community health research related to care model innovations and population health. Since January 1, 2014, research costs have been reported net of restricted grants designated and released for research purposes.

(Continued)

(i) Cash and In-Kind Contributions

The System donates funds and in-kind services to individuals and or the community at large and other not-for-profit organizations. Examples are the donation of space for use by community groups, event sponsorships, donation of food, equipment and supplies, and grants.

(j) Other Community Benefit Cost

The System allocates staff time to manage community benefit reporting, assess community benefit programs and needs, and develop and implement programs and activities in response to those needs.

The System contributes additional resources to the communities in which it provides services. The major components are defined below:

Costs in Excess of Medicare Payments – The System provides services to public program enrollees (Medicare). Such public programs typically reimburse at amounts less than cost.

Other Care Provided without Compensation (Bad Debt) – The System provides medical care in which charges are uncollected beyond what is provided under the definition of charity care.

Discounts Offered to Uninsured Patients – The hospitals in the System provide a discount on billed charges for medically necessary care delivered to patients who are uninsured and ineligible for government programs or otherwise medically indigent. The unbilled portion of uninsured care is excluded from net patient service revenue.

Taxes and Fees – The System pays property taxes to local and state government used in funding civil and education services to the community.

Community Building – The System engages in community activities that address root causes of health problems such as poverty, homelessness, and environmental issues by participating in activities including economic development work, workforce development, public safety efforts, and community health improvement work.

(Dollars in thousands)

The following is an estimate of the community benefits provided by the System:

		2015	2014
Cost of providing charity care (charges forgone of $36,220 and $50,623, respectively)	$	14,800	21,400
Costs in excess of Medicaid payments		49,800	57,300
Medicaid surcharge		24,000	25,500
MinnesotaCare tax		47,000	45,500
Community health improvement services		9,500	9,100
Subsidized health services		3,500	3,800
Health professions education		17,200	25,300
Research		3,800	4,800
Cash and in-kind contributions		3,200	2,600
Other community benefit cost		5,500	4,900
Total cost of community benefit		178,300	200,200
Costs in excess of Medicare payments		213,800	168,500
Other care provided without compensation (bad debt)		98,400	93,500
Discounts offered to uninsured patients		26,800	32,600
Taxes and fees		5,100	4,600
Community building		500	800
Total value of community contributions	$	522,900	500,200

(5) Cash and Cash Equivalents and Investments

As of December 31, cash and cash equivalents and investments, including those with limited uses, consist of the following:

		2015	2014
Cash and cash equivalents	$	349,115	180,985
Money market collective fund and short-term fixed income		74,444	114,118
Fixed income		865,847	864,850
Equity securities		350,892	290,046
Investments accounted for at net asset value		456,421	419,193
	$	2,096,719	1,869,192

(Dollars in thousands)

Certain investments are held for the following limited uses as of December 31:

	2015	2014
By trustee for repayment of long-term debt	$ 54	52
By trustee for swap collateralization	7,220	6,750
In escrow for capital projects	—	13
Donor-restricted funds	138,484	139,792
Vendor deposits	3,555	3,555
	$ 149,313	150,162

Total investment return consists of the following:

	2015	2014
Investment earnings in unrestricted net assets:		
Interest and dividend income (net of expense of $1,458 and $1,397 for 2015 and 2014, respectively)	$ 23,859	21,925
Realized (losses) gains on investments	(2,182)	14,278
Unrealized (losses) gains on investments	(54,911)	10,787
	(33,234)	46,990
Investment earnings in restricted net assets:		
Interest and dividend income	1,670	1,684
Realized gains on investments	372	2,470
Unrealized (losses) gains on investments	(4,314)	240
	(2,272)	4,394
	$ (35,506)	51,384

Total investment return is reported in the consolidated statements of operations and changes in net assets as follows:

	2015	2014
Nonoperating gains	$ (33,234)	46,990
Changes in restricted net assets	(2,272)	4,394
	$ (35,506)	51,384

(Continued)

(Dollars in thousands)

(6) Other Current Assets

Other current assets as of December 31 consist of the following:

		2015	2014
Pledges and notes receivable	$	3,429	7,266
Prepaid expenses		15,875	20,184
Third-party payer settlement receivables		21,506	9,989
Other miscellaneous receivables		59,531	71,950
	$	100,341	109,389

(7) Land, Buildings, and Equipment

Land, buildings, and equipment as of December 31 consist of the following:

		2015	2014
Land and land improvements	$	96,932	95,488
Buildings		1,433,768	1,316,725
Equipment		1,490,601	1,410,022
		3,021,301	2,822,235
Less accumulated depreciation and amortization		1,942,090	1,820,356
		1,079,211	1,001,879
Construction in progress		63,250	40,071
	$	1,142,461	1,041,950

(8) Other Assets

Other assets as of December 31 consist of the following:

		2015	2014
Cash surrender value of insurance policies	$	4,129	4,422
Pledges and notes receivable, less current portion		22,236	23,753
Investment in unconsolidated entities		77,692	54,788
Deferred bond issuance costs, net		6,072	3,923
Deferred compensation		136,688	136,308
Other		20,568	23,359
	$	267,385	246,553

(Continued)

(Dollars in thousands)

The following table represents the System's investment in and share of net earnings of unconsolidated entities recorded under the equity method of accounting as of and for the years ended December 31:

	Percentage ownership	Equity investment 2015	Equity investment 2014	Share of net earnings 2015	Share of net earnings 2014
St. Francis Regional Medical Center	43.90%	$ 40,163	34,156	6,007	3,873
Other entities	16%–50%	37,529	20,632	6,303	9,115
		$ 77,692	54,788	12,310	12,988

The following table reflects summarized financial information for St. Francis Regional Medical Center as of and for the years ended December 31:

	2015	2014
Total assets	$ 162,357	156,742
Total liabilities	68,933	70,354
Total net assets	93,424	86,388
Total revenue	137,215	125,894
Total operating expenses	122,678	116,086
Total investment return and other nonoperating	(1,088)	268
Excess of revenues over expenses	13,449	10,076

(9) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of December 31 consist of the following:

	2015	2014
Outstanding checks	$ 35,417	57,746
Trade accounts payable	65,102	44,361
Accrued payroll, taxes, and vacation	191,982	186,183
MinnesotaCare tax payable	14,047	13,150
Other	128,303	126,745
	$ 434,851	428,185

(Continued)

(Dollars in thousands)

(10) Other Current Liabilities

Other current liabilities as of December 31 consist of the following:

		2015	2014
Current portion of estimated reserves for professional and general liability claims	$	12,012	12,354
Current portion of estimated reserves for workers' compensation claims		14,008	13,911
Employee health plan claims incurred but not reported		16,927	16,498
Defined-contribution retirement plan		41,250	38,650
Due to third-party payers		10,896	—
Current portion of long-term debt		23,948	20,347
	$	119,041	101,760

(11) Long-Term Debt

Long-term debt as of December 31 consists of the following:

		2015	2014
Fixed Rate Revenue Bonds, Series 2009A-1 (Allina Health System), annual interest rate from 4.50% to 5.25%	$	104,715	106,415
Fixed Rate Revenue Bonds, Series 2009A-2 (Allina Health System), annual interest rate from 3.25% to 5.50%		68,700	68,860
Variable Rate Revenue Bonds, Series 2009B&C (Allina Health System), Variable Rate Demand Notes, average annual interest rate of 0.02% during 2015; 0.01% at December 31, 2015		164,525	164,525
Fixed Rate Revenue Bonds, Series 2007A (Allina Health System), annual interest rate from 4.50% to 5.50%		97,030	105,415
Variable Rate Revenue Bonds, Series 2007C (Allina Health System), Variable Rate Demand Notes, average annual interest rate of 0.03% during 2015; 0.015% at December 31, 2015		120,500	121,250
Variable Rate Revenue Bonds, Series 1998A (Allina Health System) Periodic Auction Reset, average annual interest rate of 0.14% during 2015; 0.52% at December 31, 2015		14,575	14,575
Variable Rate Health Care System Revenue Bonds, Series 1993B (HealthSpan) Periodic Auction Reset, average annual interest rate of 0.05% during 2015; 0.015% at December 31, 2015		17,000	24,900

(Continued)

(Dollars in thousands)

		2015	2014
Fixed Rate Taxable Bonds, Series 2015 (Allina Health System), annual interest rate of 4.805%	$	250,000	—
Fixed Rate Health Care Facilities Revenue Note, Series 2014 (Allina Health System), annual interest rate of 2.55%		19,210	20,165
Capitalized leases		13,745	4,053
Other		1,626	163
		871,626	630,321
Unamortized portion of original issue premium		2,830	3,320
Current portion		(23,948)	(20,347)
	$	850,508	613,294

Certain divisions of the System are members of the Allina Obligated Group (Obligated Group), which is subject to the terms and conditions of the Master Trust Indenture dated October 1, 1998, as amended, between the System and Wells Fargo Bank Minnesota, National Association, and is jointly and severally liable for any debts and/or other obligations of each Obligated Group member and the Obligated Group as a whole. The Obligated Group members include the hospitals, nonhospital specialty care services, and certain physician clinics. The System also operates several wholly owned direct and indirect subsidiaries outside of the Obligated Group, including clinics and foundations.

In September 2015, the System issued a fixed-rate Taxable Bond, Series 2015, in the aggregate principal amount of $250,000. The 2015 Bonds are secured by the Obligated Group's pledged revenue and were issued for the purpose of funding new projects and strategic initiatives.

In December 2014, the City of Minneapolis, on behalf of the System, issued a fixed-rate Revenue Note, Series 2014, in the aggregate principal amount of $20,165. The 2014 Revenue Note is secured by the Obligated Group's pledged revenue and was used to pay off the portion of the System's line of credit relating to the refinancing of the Regina Medical Center 2010 Series Bond.

In November 2009, the City of Minneapolis and the Housing and Redevelopment Authority of the City of Saint Paul, on behalf of the System, issued fixed-rate Revenue Bonds, Series 2009A-1 and 2009A-2, in the aggregate principal amount of $113,415 and $71,830, respectively. In addition, Variable Rate Revenue Bonds, Series 2009B&C, were issued in the aggregate amount of $164,525. The 2009A-1 Bonds are secured by the Obligated Group's pledged revenue and were used to acquire, construct, and renovate certain of the System's facilities and refinance and legally defease, in part, the 2007B Bonds. The 2009A-2 Bonds are secured by the Obligated Group's pledged revenue and were used to redeem, in part, the Series 1998A Variable Rate Revenue Bonds at a redemption price of 93%. The 2009B&C Bonds are secured by the Obligated Group's pledged revenue and were used to refinance and legally defease the remaining portion of the Series 2007B Variable Rate Revenue Bonds not refinanced through the issuance of the 2009A-1 Bonds.

(Continued)

(Dollars in thousands)

The Series 2009B&C Bonds are secured by letters of credit issued by two banks. Repayment of draws against the letters is secured by term credit agreements with the banks in the amount of $114,525, which expires on January 5, 2017, and $50,000, which expires on January 4, 2017. If the bonds were put and not remarketed, the banks would be required to purchase the bonds. Draws under the term credit agreements to repay the banks for the purchase of the bonds are payable in an amount equal to the principal payments necessary to repay the draws over five years in equal quarterly installments, beginning 367 days after the draw, based on the bank's base rate plus 2.00%.

Payment of principal and interest on the Series 2007A, Series 1998A, and Series 1993B Bonds is insured. Interest rates on the variable rate Series 1998A and Series 1993B Bonds are determined by auction. If an auction fails, interest rates payable to the existing bondholders are determined by a formula incorporated in the bond documents for these two series of bonds.

On June 18, 2008, the System completed a conversion of the Series 2007C Bonds from auction rate securities to variable rate demand bonds. This conversion included the insurer's consent to remove the insurance and for a bank to support the bonds with a direct pay letter of credit. Repayment of draws against the letter is secured by a term credit agreement with the bank in the aggregate amount of $121,950, which expires on January 4, 2017. If the bonds were put and not remarketed, the bank would be required to purchase the bonds. Draws under the term credit agreement to repay the bank for the purchase of the bonds are payable in an amount equal to the principal payments necessary to repay the draws over five years, beginning 367 days after the draw, based on the bank's base rate plus 2.00%.

Aggregate annual maturities of long-term debt and mandatory sinking fund requirements, as stated under the actual debt terms, for each of the five years following December 31, 2015, are as follows:

2016	$	23,948
2017		24,922
2018		25,846
2019		26,733
2020		27,180
Thereafter		742,997

Aggregate principal payments of long-term debt based on the variable rate demand notes being put back to the System and a corresponding draw being made on underlying liquidity facilities, for each of the five years following December 31, 2015, are as follows:

2016	$	23,948
2017		81,352
2018		82,026
2019		82,888
2020		83,235
Thereafter		518,177

(Dollars in thousands)

The System uses interest rate swaps as a part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Four of the five interest rate swaps are used to hedge identified debt, or interest rate exposures, and are not used for speculative purposes. One of the interest rate swaps was established for speculative purposes and is not tied directly to outstanding debt. Interest rate swaps are recognized as either other long-term assets or other long-term liabilities in accordance with the netting provisions in the counterparty agreement and are measured at fair value.

As of December 31, 2015 and 2014, the System posted collateral of $7,220 and $6,750, respectively, related to one of the System's swaps due to changes in interest rates. The following table provides details regarding the System's fair value of the derivative instruments at December 31, 2015, none of which are designated as cash flow hedging instruments:

Fixed payer interest rate swaps

Swap	Balance sheet location	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2015	Counterparty
2009BC	Other liabilities	$ 11,783	41,131	3.74%	% of LIBOR	0.48%	Wells Fargo
2009BC	Other liabilities	35,263	123,394	3.73	% of LIBOR	0.47	JP Morgan
2007C	Other liabilities	27,213	120,500	3.58	% of LIBOR	0.36	US Bank
2001	Other liabilities	18,459	50,000	5.17	SIFMA	0.03	Goldman Sachs
1998A	Other liabilities	2,380	15,075	4.44	SIFMA	0.03	Goldman Sachs
Total		$ 95,098	350,100				

The following table provides details regarding the System's fair value of the derivative instruments at December 31, 2014, none of which are designated as cash flow hedging instruments:

Fixed payer interest rate swaps

Swap	Balance sheet location	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2014	Counterparty
2009BC	Other liabilities	$ 11,139	41,131	3.74%	% of LIBOR	0.45%	Wells Fargo
2009BC	Other liabilities	33,331	123,394	3.73	% of LIBOR	0.45	JP Morgan
2007C	Other liabilities	26,400	121,250	3.58	% of LIBOR	0.35	US Bank
2001	Other liabilities	17,445	50,000	5.17	SIFMA	0.05	Goldman Sachs
1998A	Other liabilities	2,534	15,075	4.44	SIFMA	0.05	Goldman Sachs
Total		$ 90,849	350,850				

(Dollars in thousands)

The following table provides details regarding the gains (losses) from the System derivative instruments in the consolidated statements of operations and changes in net assets, none of which are currently designated as hedging instruments. The 1998A swap was designated as a hedging instrument until December 31, 2008.

	Amount of gain (loss) on change in fair value recognized as nonoperating: gains (losses) on interest rate swap agreements		Amount of loss reclassified from unrestricted net assets into revenues over expenses as nonoperating: gains (losses) on interest rate swap agreements		Amount of interest paid to counterparty recognized as nonoperating: gains (losses) on interest rate swap agreements		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
2009BC	$ (2,576)	(15,868)	—	—	(5,371)	(5,409)	(7,947)	(21,277)
2007C	(813)	(8,476)	—	—	(3,878)	(3,921)	(4,691)	(12,397)
2001	(1,014)	(4,984)	—	—	(2,567)	(2,551)	(3,581)	(7,535)
1998A	154	55	(874)	(874)	(669)	(772)	(1,389)	(1,591)
	$ (4,249)	(29,273)	(874)	(874)	(12,485)	(12,653)	(17,608)	(42,800)

The System records the swaps’ liability at fair value, which requires nonperformance risk (i.e., credit risk), to be included in the valuation. Nonperformance risk is defined as the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. This nonperformance risk is determined by adjusting the discounting rate by a credit spread as of the reporting date. The addition of the credit spread to the discounting rate reduces the reported liability. Because of market volatility, the fair value reported liability of the swaps is $3,401 and $6,724 less as of December 31, 2015 and 2014, respectively, than the mark-to-market valuations (note 14).

The estimated fair value of long-term debt was $906,789 and $666,198 as of December 31, 2015 and 2014, respectively. Interest rates that are currently available to the System for issuance of debt with similar terms and remaining maturities are used to estimate the fair value of fixed-rate debt through the use of discounted cash flow analyses. The carrying amount of variable rate bonds and other notes payable approximates fair value. The fair value measurement was done using Level 2 criteria (note 14).

Interest paid, net of amounts capitalized, was $18,170 and $16,330 during 2015 and 2014, respectively.

The System has a Revolving Credit Agreement with Wells Fargo Bank through June 17, 2019, which consists of a line of credit of $26,000. The interest rate on the line of credit is the Reserve Adjusted London Interbank Offered Rate (LIBOR) plus 0.5%, and is secured by a note under the 1998 Master Trust Indenture. The unused line fee for the revolving line of credit is 0.15% per annum. The System had insurance-related letters of credit applied against the line of credit in the amount of $5,468 and $2,536 at December 31, 2015 and 2014, respectively. There were no draws on the line of credit at December 31, 2015 and 2014.

(Continued)

(Dollars in thousands)

(12) Other Liabilities

Other liabilities as of December 31 consist of the following:

	2015	2014
Estimated reserves for professional and general liability claims, less current portion	$ 42,862	42,498
Estimated reserves for workers' compensation claims, less current portion	31,902	30,005
Net pension and postretirement liability	17,882	20,591
Interest rate swaps payable	95,098	90,849
Deferred compensation	160,093	165,052
Leasehold incentive allowance	19,840	22,455
Financing obligation	25,624	25,624
Other	22,277	23,471
	$ 415,578	420,545

(13) Restricted Net Assets

Temporarily restricted net assets have been restricted by donors for the following purposes as of December 31:

	2015	2014
Capital	$ 15,585	17,147
Charity and indigent care	4,472	4,712
Education and research	24,151	22,061
Patient care	19,086	20,232
Other	42,609	51,003
	$ 105,903	115,155

(Dollars in thousands)

Income on the following permanently restricted net assets is restricted for the following purposes as of December 31:

		2015	2014
Capital	$	128	128
Charity and indigent care		1,806	1,806
Education and research		18,827	18,644
Patient care		12,712	12,710
Other		21,805	21,660
	$	55,278	54,948

(14) Fair Value Measurements

The System's investments include money market, fixed income, and equity securities, which are carried at fair value based on quoted market prices and are classified as trading securities. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. In addition, the System invests in limited partnerships that hold interests in hedge funds, private equity, emerging markets, debt, and commodities, which are accounted for at net asset value as a practical expedient to fair value, and the System recognizes the increase or decrease in the partnerships' net asset value in nonoperating gains (losses). The System generally has liquidity ranging from 30 to 90 days in these funds. Certain of the underlying partnerships may hold some securities without readily determinable fair values.

For all financial instruments other than investments, derivatives, and long-term debt (note 11), the carrying value is a reasonable estimate of fair value because of the short-term nature of the financial instruments.

Realized gains and losses on investments, interest, dividends, and declines in investment value determined to be other-than-temporary are recorded as nonoperating gains (losses) unless the investment return is restricted by donor or law. Changes in unrealized gains and losses that are considered temporary are recorded as nonoperating gains (losses) for investments classified as trading and as other changes in unrestricted net assets for investments classified as other-than-trading. Investment return restricted by donor or law is recorded as changes in restricted net assets.

The System determines the fair value of its financial instruments based on the fair value hierarchy established in ASC Topic 820, *Fair Value Measurement*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 Inputs: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date

Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data

Level 3 Inputs: Unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability (including risk assumptions) developed based on the best information available in the circumstances

Inputs and valuation techniques for significant other observable and significant unobservable inputs are as follows:

For Level 2 and Level 3 cash equivalents and fixed income assets that rely on significant other observable inputs and significant unobservable inputs, the System employs multiple third-party information providers to help determine the fair value of the assets. Level 2 and Level 3 securities in separately managed accounts are held at Bank of New York Mellon (BNYMellon), who acts as Trustee and Custodian for the assets. As Custodian, BNYMellon uses multiple pricing services to value the assets. The investment managers utilize their own pricing services and valuation processes. Any significant discrepancies between Custodian and investment manager values are reconciled on a monthly basis by the managers and BNYMellon. The System also employs an investment consultant who researches significant pricing differences between the manager and custodian on a security-by-security basis. The consultant will notify the Custodian of any significant pricing issues.

For funds of hedge funds, limited partnership assets, and commingled monthly valued funds, the System utilizes net asset value per share or its equivalent to determine the fair value of the assets. The System has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date.

(Dollars in thousands)

The System's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2015 as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Cash	$ 82,819	82,819	—	—
Money market funds	266,296	266,296	—	—
Total cash and cash equivalents	349,115	349,115	—	—
Short-term and long-term investments – trading securities:				
Short-term fixed income	34,606	32,405	2,201	—
Money market fund	13,850	13,850	—	—
Total short-term fixed income and money market	48,456	46,255	2,201	—
Equity:				
Financials	17,563	17,563	—	—
Consumer	7,971	7,971	—	—
Industrials	10,035	10,035	—	—
Technology	3,060	3,060	—	—
Healthcare	2,325	2,325	—	—
Global equity mutual funds	272,983	272,983	—	—
Other equity	11,264	7,765	3,499	—
Total equity	325,201	321,702	3,499	—

(Continued)

(Dollars in thousands)

	Total	Fair value measurements using Level 1	Level 2	Level 3
Fixed income:				
U.S. Treasury securities	$ 206,102	206,102	—	—
U.S. Agency securities	89,034	—	89,034	—
Corporate bonds	157,857	—	157,857	—
Mortgage, commercial, and asset-backed securities	97,952	—	97,952	—
Sovereigns	3,779	—	3,779	—
Term loan/private placement	57,717	—	56,625	1,092
All asset mutual fund	46,834	46,834	—	—
Unconstrained fixed income mutual funds	124,145	124,145	—	—
Other	18,210	—	18,210	—
Total fixed income	801,630	377,081	423,457	1,092
Total investments accounted for at net asset at net asset value	423,004			
Total investments – trading securities	1,598,291	745,038	429,157	1,092
Investments with limited uses – trading securities:				
Short-term fixed income	13,762	13,642	120	—
Money market collective fund	12,171	12,171	—	—
Equity	25,691	25,415	276	—
Fixed income	54,259	26,560	27,613	86
Investments accounted for at net asset value	33,417			
Restricted foundation trusts (fixed income)	9,958	—	9,958	—
Total investments with limited uses – trading securities	149,258	77,788	37,967	86

(Dollars in thousands)

	Total	Fair value measurements using Level 1	Level 2	Level 3
Investments with limited uses – available-for-sale securities:				
Money market fund	$ 55	55	—	—
Total investments with limited uses – available-for-sale securities	55	55	—	—
Total investments with limited uses	149,313	77,843	37,967	86
Total	$ 2,096,719	1,171,996	467,124	1,178
Liabilities:				
Interest rate swaps	$ 95,098	—	95,098	—

	Fair value measurements, Level 3 Term loan
Balance, December 31, 2014	$ 1,146
Total realized and unrealized losses included in excess of revenues over expenses	(5)
Purchases	200
Sales	(163)
Balance, December 31, 2015	$ 1,178

(Continued)

(Dollars in thousands)

The System's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2014 as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Cash	$ 17,971	17,971	—	—
Money market funds	163,014	163,014	—	—
Total cash and cash equivalents	180,985	180,985	—	—
Short-term and long-term investments – trading securities:				
Short-term fixed income	56,498	54,040	2,458	—
Money market fund	28,866	28,866	—	—
Total short-term fixed income and money market	85,364	82,906	2,458	—
Equity:				
Financials	16,354	16,354	—	—
Consumer	8,269	8,269	—	—
Industrials	9,466	9,466	—	—
Technology	2,556	2,556	—	—
Healthcare	2,481	2,481	—	—
International equity mutual funds	217,622	217,622	—	—
Other equity	11,013	7,841	3,172	—
Total equity	267,761	264,589	3,172	—
Fixed income:				
U.S. Treasury securities	173,208	173,208	—	—
U.S. Agency securities	99,722	—	99,722	—
Corporate bonds	136,122	—	136,122	—
Mortgage, commercial, and asset-backed securities	100,963	—	100,963	—
Sovereigns	5,456	—	5,456	—
Term loan/private placement	44,841	—	43,783	1,058
All asset mutual fund	94,719	94,719	—	—
Unconstrained fixed income mutual funds	123,915	123,915	—	—
Other	18,989	—	18,989	—
Total fixed income	797,935	391,842	405,035	1,058

(Dollars in thousands)

	Total	Fair value measurements using Level 1	Level 2	Level 3
Total investments accounted for at net asset value	386,985			
Total investments – trading securities	1,538,045	739,337	410,665	1,058
Investments with limited uses – trading securities:				
Short-term fixed income	13,967	13,847	120	—
Money market collective fund	14,776	14,776	—	—
Equity	22,285	22,021	264	—
Fixed income	56,509	29,194	27,227	88
Investments accounted for at net asset value	32,208			
Restricted foundation trusts (fixed income)	10,406	—	10,406	—
Total investments with limited uses – trading securities	150,151	79,838	38,017	88
Investments with limited uses – available-for-sale securities:				
Money market fund	11	11	—	—
Total investments with limited uses – available-for-sale securities	11	11	—	—
Total investments with limited uses	150,162	79,849	38,017	88
Total	$ 1,869,192	1,000,171	448,682	1,146
Liabilities:				
Interest rate swaps	$ 90,849	—	90,849	—

(Continued)

(Dollars in thousands)

		Fair value measurements, Level 3
		Term loan
Balance, December 31, 2013	$	218
Total realized and unrealized losses included in excess of revenues over expenses		(34)
Purchases		1,299
Sales		(337)
Balance, December 31, 2014	$	1,146

There were no significant transfers into or out of Level 1, Level 2, or Level 3 securities during the years ended December 31, 2015 and 2014.

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent), including restricted and unrestricted assets, as of December 31, 2015 are as follows:

		Net asset value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Global bonds fund	$	65,335	—	Monthly	15 days
Global equity fund		77,691	—	45 days	15 days
Emerging markets equity fund		35,334	—	Daily	5 days
Equity long/short hedge funds		74,175	—	Monthly/ quarterly	30–90 days
Opportunistic fixed income hedge funds		104,346	—	Quarterly	45–90 days
Fund of hedge funds		1,047	—	Quarterly	90 days
Private equity funds		45,053	39,924	10 years	NA
Emerging market debt fund		53,440	—	Daily	Same day
Total	$	456,421	39,924		

Global bond fund includes fixed-rate and floating-rate debt securities of governments and government-related entities, as well as derivatives. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

Global equity fund is an investment in a fund that invests in global equities. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

Emerging markets equity fund is an investment in a fund that invests in emerging market equities. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

Emerging market debt fund is an investment in a fund that invests in emerging market debt. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

Equity long/short-hedge funds include investments in hedge funds that invest both long and short in the United States and global common stocks through a hedge funds structure. The value of the investments in this category has been estimated using the net asset value per share of the investments.

Fund of hedge funds include investments in fund of hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The value of the investments in this category has been estimated using the net asset value per share of the investments. The fund is currently in liquidation and is making quarterly redemptions to shareholders.

Opportunistic fixed income hedge funds include investments in strategic fixed income and distressed debt hedge fund managers. These managers have the ability to invest across the capital structure and around the globe. The value of the investments in this category has been estimated using the net asset value per share of the investment.

Private equity funds include a limited partnership investment that focuses on health care services and information technology companies as well as a limited partnership that invests in distressed and opportunistic real estate investments. The fair value of the portfolio companies is determined using valuation techniques and procedures in accordance with recommendations by the American Institute of Certified Public Accountants (AICPA) for valuing private companies.

(Continued)

(Dollars in thousands)

The System's deferred compensation investments recorded as other assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2015 as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Mutual funds:				
Large cap domestic equity	$ 46,085	46,085	—	—
Mid cap domestic equity	7,115	7,115	—	—
Small cap domestic equity	2,696	2,696	—	—
International equity	20,850	20,850	—	—
Fixed income	24,924	24,924	—	—
Balanced	8,390	8,390	—	—
Life cycle	2,196	2,196	—	—
Money market	4,491	4,491	—	—
Other	3,051	3,051	—	—
Total mutual funds	119,798	119,798	—	—
Guaranteed investment contracts	16,890	—	—	16,890
Total assets	$ 136,688	119,798	—	16,890

	Fair value measurements, Level 3
Balance, December 31, 2014	$ 13,082
Total interest income	211
Purchases	7,773
Sales	(4,176)
Balance, December 31, 2015	$ 16,890

(Dollars in thousands)

The System's deferred compensation investments recorded as other assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2014 as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Mutual funds:				
Large cap domestic equity	$ 43,443	43,443	—	—
Mid cap domestic equity	8,020	8,020	—	—
Small cap domestic equity	7,374	7,374	—	—
International equity	19,020	19,020	—	—
Fixed income	26,985	26,985	—	—
Balanced	8,978	8,978	—	—
Life cycle	2,692	2,692	—	—
Money market	3,213	3,213	—	—
Other	3,501	3,501	—	—
Total mutual funds	123,226	123,226	—	—
Guaranteed investment contracts	13,082	—	—	13,082
Total assets	$ 136,308	123,226	—	13,082

	Fair value measurements, Level 3
Balance, December 31, 2013	$ 11,411
Total interest income	236
Purchases	(4,742)
Sales	6,177
Balance, December 31, 2014	$ 13,082

(Dollars in thousands)

(15) Benefit Plans

(a) Defined-Benefit Cash Balance Plans

The System is making contributions pursuant to provisions of a collective bargaining agreement. The assets for these active participants are in a stand-alone defined-benefit pension plan, known as the Allina Health Pension Plan for Collectively Bargained Employees. This plan holds assets of $10,435 and $9,272, which are fair value measured using Level 1 criteria except for $404 and $640 that are measured at net asset value per share as of December 31, 2015 and 2014, respectively. This plan has a projected benefit obligation of $10,608 and $9,754 using a discount rate of 3.89% and 3.54% as of December 31, 2015 and 2014, respectively. The System made contributions of $1,358 and $615 and recorded a total pension expense of $1,049 and $1,218 in 2015 and 2014, respectively. The unfunded balance of $173 and $482, respectively, as of December 31, 2015 and 2014 is reported in the consolidated balance sheet as a noncurrent other asset.

The defined-benefit pension plan of Courage Center was assumed in June 2013 with the acquisition of Courage Center. This plan, which was frozen in 2009, holds assets of $25,138 and $24,973, which are fair value measured using Level 2 criteria, and has a projected benefit obligation of $32,936 and $34,282 using a discount rate of 4.0% as of December 31, 2015 and 2014. The System made contributions of $1,000 and $732 in 2015 and 2014, respectively, and recorded a total pension (expense) gain of $511 and ($7,077) in 2015 and 2014, respectively. The unfunded balance of $7,798 and $9,309 as of December 31, 2015 and 2014, respectively, is reported in the consolidated balance sheet as a noncurrent other liability.

During 2016, the System expects to make required pension contributions totaling approximately $685 for the plans, but may elect to make additional contributions.

Expected future benefit payments for the plans for the ten years following December 31, 2015 are as follows:

2016	$	1,779
2017		1,920
2018		1,814
2019		2,360
2020		2,361
2021–2025		13,795
	$	24,029

(Dollars in thousands)

(b) Multi-Employer Plans

Contributions to the union-sponsored multi-employer plans are made in accordance with collective bargaining agreements. The risks of participation in these multi-employer plans are different from single-employer plans in the following aspects: a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and c) if the System chooses to stop participating in some of its multi-employer plans and if the plan is underfunded, the System may be required to pay those plans an amount based on the underfunded status of the plan, referred to as the withdrawal liability. The System's participation in these plans for the year ended December 31, 2015 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2015 and 2014 is for the plan's year-end at December 31, 2014 and 2013, respectively. The zone status is based on information that the System received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject:

Pension fund	EIN/Pension plan number	Pension protection act zone status 2014	Pension protection act zone status 2013	FIP/RP Status pending/ implemented	Contributions of the System in plan year 2014	Contributions of the System in plan year 2013	Surcharge imposed	Expiration date of collective bargaining agreement
Twin City Hospitals Minnesota Nurses Association Pension Plan	41-6184922-001	Green	Yellow	N/A	$ 35,961	35,433	No	May 31, 2016
Other funds					4,491	4,247		
Total contributions					$ 40,452	39,680		

Total amounts expensed under the union-sponsored multi-employer plans were $40,893 and $41,827 for 2015 and 2014, respectively.

The System contributes more than 5% of the total contributions to all of the plans in which it participated for the plan years 2014 and 2013. The System is required to make minimum contributions each year and will make contributions of $39,229 in 2016.

The funding improvement plan for the Twin City Hospitals Minnesota Nurses Association Pension Plan required no contribution or benefit changes from the currently bargained amounts to achieve the funding improvement plan goals.

At the date the System's consolidated financial statements were issued, Forms 5500 were not available for the plan year ended in 2015.

(c) Defined-Contribution Plans

Certain employees of the System are eligible to participate in defined-contribution plans, whereby 50% of the employees' initial 4% of salary contributions is matched. The defined-contribution plans were enhanced effective January 1, 2009 to provide an additional annual nonelective employer contribution for eligible employees as a replacement to the contribution made to the frozen pension plan. The additional contribution is given as a percent of pay, ranging from 3.0% to 4.5%, based on years of vesting service. Contributions are made during the year following the calendar year-end. The contribution payable to employees is recorded in other current liabilities. Total amounts expensed under defined-contribution plans were $63,289 and $59,467 for 2015 and 2014, respectively.

(d) Postretirement Welfare Benefits

The System provides postretirement welfare benefits to certain employees. Postretirement welfare cost was $658 and $481 for 2015 and 2014, respectively. As of December 31, 2015 and 2014, accumulated postretirement benefit obligation was $10,132 and $11,094, respectively, and accrued postretirement benefit cost was $9,911 and $10,800, respectively. A discount rate of 4.0%, a rate of return on plan assets of 5.0%, and a medical plan trend rate of 7.0% in 2015, decreasing to 5.0% in 2020 and thereafter, have been assumed.

(16) Self-Insurance Reserves

The System insures its general and professional liability exposures under claims-made policies. Under these policies, the System has self-insured deductible amounts. Claim payments required in excess of certain occurrence and annual aggregate amounts are covered under umbrella policies. An insurance trust has been established, which covers specific claims periods. Actuarially determined amounts are contributed to pay for the estimated cost of claims. The System also self-insures workers' compensation exposures. If claims-made policies presently in force are not renewed or replaced with equivalent insurance, claims asserted after the end of the policy term will be uninsured.

The System has a fixed-rate surety bond in the amount of $49,943 at December 31, 2015 and 2014. The surety bond was obtained in connection with the System's self-insured workers' compensation program at a rate of 0.31% per annum.

The System also has unused letters of credit totaling $5,468 through June 30, 2016. The letters of credit were obtained in connection with the System's self-insured automobile and construction programs at a fee of 0.45% per annum.

The System has made provisions for estimated professional and general liability and workers' compensation claims that have been retained by the System because of deductible provisions of various policies or because of unasserted claims and other uninsured exposures. Reserves of $100,784 and $98,768 as of December 31, 2015 and 2014, respectively, have been recorded based on undiscounted historical data for professional and general liability and on a present-value basis using an annual discount rate of 2% for workers' compensation claims.

Under the comprehensive welfare benefit plan, the System has made provisions for claims reported but not paid and claims incurred but not reported of $16,927 and $16,498 as of December 31, 2015 and 2014, respectively. Management of the plan believes the provisions are adequate to cover claims incurred.

(17) Taxes

The System has been determined to qualify as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The System has also been determined to be exempt from federal and state income tax on related income under Section 501(a) of the Internal Revenue Code and Minnesota Statute Section 290.05, Subdivision 2. Certain of the System's subsidiaries and affiliates qualify as tax-exempt organizations, while others are taxable. The System and its subsidiaries paid taxes of $1,229 and $1,717 in 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the taxable subsidiaries of the System's continuing operations had a gross deferred tax asset of $68,837 and $68,851, respectively, resulting from net operating loss carryforwards, employee compensation and benefits accruals, provision for bad debts, and limitation of charitable contributions, offset by valuation allowances of $65,513 and $68,569, respectively, and a gross deferred tax liability of $325 and $282, respectively, primarily attributable to depreciation and a change in accounting method of a taxable subsidiary. The valuation allowance decreased by $56 and $10,377 during 2015 and 2014, respectively.

As of December 31, 2015, the continuing operations of the System and its subsidiaries had net operating loss carryforwards of $114,765, for income tax purposes, which expire in various years through 2035.

The System has analyzed income tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The System believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the System's consolidated financial statements. As of December 31, 2015 and 2014, the System does not have any significant liabilities for uncertain tax benefits. The filings for the years ended 2012 to 2015 are open to examination by federal and state authorities.

(18) Commitments and Contingencies

The System has various noncancelable operating occupancy lease agreements and other operating lease agreements for computer, medical, communication, and other equipment. The terms of certain of the lease agreements contain lease escalation clauses, allow for renewal of the leases, and require the System to pay operating costs in addition to minimum base rent. Base rent expense for operating leases totaled $29,630 and $27,581, for the years ended December 31, 2015 and 2014, respectively.

(Dollars in thousands)

Aggregate future minimum lease payments required under operating lease agreements in effect on December 31, 2015 are as follows:

2016	$	27,877
2017		25,840
2018		23,984
2019		21,025
2020		19,095
Thereafter		81,784
	$	199,605

The System has incurred financing obligations relating to space lease agreements in a medical office building and a clinic. Under the guidance in ASC Topic 840, *Leases*, the System is considered the owner of the buildings. As of December 31, 2015 and 2014, the cost of the buildings and the related financing obligation are included in the accompanying consolidated balance sheets in property and equipment, net, and in other liabilities, respectively.

Approximately 41% of employees are represented by various collective bargaining arrangements, of whom approximately 60% are represented by arrangements that are pending or expire within one year.

Laws and regulations governing the Medicare program are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on its consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare program.

The System is subject to various legal proceedings and claims that are incidental to its normal business activities. With respect to these actions, established reserves are fairly stated, though actual results could vary from the estimates and assumptions that were used.

(19) Acquisitions

On January 1, 2015, the System acquired substantially all assets and liabilities of the Rice County District One Hospital (District One Hospital). The System is now the sole owner of the hospital. The results of District One Hospital’s operations, including total revenues of $48,040, have been included in the consolidated financial statements since the acquisition date.

(Dollars in thousands)

There was no consideration transferred for the acquisition, resulting in the System recording an inherent contribution received for the net assets acquired. The following table summarizes the recognized amounts of estimated fair value of the assets acquired and liabilities assumed at the acquisition date.

		District One Hospital
Current and other long-term assets	$	4,629
Property and equipment		34,769
Liabilities		(4,549)
Long-term debt		—
Total identifiable net assets acquired	$	34,849
Unrestricted nonoperating contribution received in acquisition	$	34,849

(20) Functional Expenses

The System provides health care services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets are as follows:

		2015	2014
Healthcare services	$	3,097,772	2,906,919
General and administrative		550,099	550,818
	$	3,647,871	3,457,737

(21) Subsequent Events

The System has evaluated subsequent events from the consolidated balance sheet date through March 9, 2016, the date at which the consolidated financial statements were issued, and determined there are no other items to disclose.

KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Allina Health System:

We have audited the consolidated financial statements of Allina Health System as of and for the years ended December 31, 2015 and 2014, and have issued our report thereon dated March 9, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Minneapolis, Minnesota
March 9, 2016

ALLINA HEALTH SYSTEM

Consolidating Balance Sheet

December 31, 2015

(Dollars in thousands)

Assets		**Obligated Group**	**Other nonobligated**	**Eliminations**	**Allina Health System**
Current assets:					
Cash and cash equivalents	$	342,556	6,559	—	349,115
Short-term investments		351,062	—	—	351,062
Patient accounts receivable, less allowance for uncollectible accounts and charity care of $74,216		443,268	21,790	—	465,058
Inventories		61,163	134	—	61,297
Other current assets		105,961	(5,620)	—	100,341
		1,304,010	22,863	—	1,326,873
Investments		1,189,474	57,755	—	1,247,229
Investments with limited uses		17,866	131,447	—	149,313
Beneficial interests in net assets of Allina Foundations		198,093	—	(198,093)	—
Land, buildings, and equipment, net		1,126,447	16,014	—	1,142,461
Other assets		201,186	66,199	—	267,385
Total assets	$	4,037,076	294,278	(198,093)	4,133,261
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	$	418,847	16,004	—	434,851
Other current liabilities		118,386	655	—	119,041
		537,233	16,659	—	553,892
Long-term debt		845,848	4,660	—	850,508
Other liabilities		356,774	58,804	—	415,578
Total liabilities		1,739,855	80,123	—	1,819,978
Net assets:					
Unrestricted		2,091,052	61,050	—	2,152,102
Temporarily restricted		150,891	99,925	(144,913)	105,903
Permanently restricted		55,278	53,180	(53,180)	55,278
Total net assets		2,297,221	214,155	(198,093)	2,313,283
Total liabilities and net assets	$	4,037,076	294,278	(198,093)	4,133,261

See accompanying independent auditors’ report.

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2015

(Dollars in thousands)

	Obligated Group	Other nonobligated	Eliminations	Allina Health System
Revenues:				
Patient service revenue net of contractual adjustments	$ 3,603,439	17,544	—	3,620,983
Provision for bad debts	(98,774)	238	—	(98,536)
Net patient service revenue	3,504,665	17,782	—	3,522,447
Other operating revenue	249,039	39,191	(13,785)	274,445
Total revenues	3,753,704	56,973	(13,785)	3,796,892
Expenses:				
Salaries and benefits	2,307,920	14,185	—	2,322,105
Supplies and services	818,208	40,123	—	858,331
Depreciation and amortization	153,981	1,272	—	155,253
Financing costs	27,861	384	—	28,245
Services provided by (to) related divisions	16,088	(2,303)	(13,785)	—
State assessments and taxes	78,864	959	—	79,823
Utilities and maintenance	74,145	467	—	74,612
Other operating expenses	121,371	8,131	—	129,502
Total expenses	3,598,438	63,218	(13,785)	3,647,871
Operating income (loss)	155,266	(6,245)	—	149,021
Nonoperating gains (losses):				
Investment return	(31,118)	(2,116)	—	(33,234)
Losses on interest rate swap agreements	(17,608)	—	—	(17,608)
Contributions received in acquisitions	34,849	—	—	34,849
Other	(1,911)	(596)	—	(2,507)
Excess of revenues over expenses	$ 139,478	(8,957)	—	130,521

(Continued)

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2015

(Dollars in thousands)

		Obligated Group	Other nonobligated	Eliminations	Allina Health System
Unrestricted net assets:					
Excess of revenues over expenses	$	139,478	(8,957)	—	130,521
Net assets released from restrictions for capital purposes		1,504	8,194	—	9,698
Transfer net assets released to Obligated Group		9,267	(9,267)	—	—
Amortization of unrealized loss on interest rate swap agreement		874	—	—	874
Capital contributions to nonobligated group affiliates, net		(4,018)	4,018	—	—
Other		5,828	(2,849)	—	2,979
Increase (decrease) in unrestricted net assets		152,933	(8,861)	—	144,072
Temporarily restricted net assets:					
Contributions		2,004	19,395	—	21,399
Investment losses		(51)	(2,180)	—	(2,231)
Net assets released from restrictions		(1,504)	(25,896)	—	(27,400)
Change in beneficial interests in net assets of Allina Foundations		(16,362)	—	16,362	—
Other		(465)	(555)	—	(1,020)
(Decrease) increase in temporarily restricted net assets		(16,378)	(9,236)	16,362	(9,252)
Permanently restricted net assets:					
Contributions for endowment funds		27	344	—	371
Investment losses		(24)	(17)	—	(41)
Change in beneficial interests in net assets of Allina Foundations		327	—	(327)	—
Increase (decrease) in permanently restricted net assets		330	327	(327)	330
Increase (decrease) in net assets		136,885	(17,770)	16,035	135,150
Net assets at beginning of year		2,160,336	231,925	(214,128)	2,178,133
Net assets at end of year	$	2,297,221	214,155	(198,093)	2,313,283

See accompanying independent auditors’ report.

ALLINA HEALTH SYSTEM

Consolidating Balance Sheet

December 31, 2014

(Dollars in thousands)

Assets		Obligated Group	Other nonobligated	Eliminations	Allina Health System
Current assets:					
Cash and cash equivalents	$	175,655	5,330	—	180,985
Short-term investments		357,511	—	—	357,511
Patient accounts receivable, less allowance for uncollectible accounts and charity care of $70,285		396,991	22,531	—	419,522
Inventories		55,168	143	—	55,311
Other current assets		111,073	(1,684)	—	109,389
		1,096,398	26,320	—	1,122,718
Investments		1,117,520	63,014	—	1,180,534
Investments with limited uses		17,559	132,603	—	150,162
Beneficial interests in net assets of Allina Foundations		214,128	—	(214,128)	—
Land, buildings, and equipment, net		1,025,697	16,253	—	1,041,950
Other assets		182,728	63,825	—	246,553
Total assets	$	3,654,030	302,015	(214,128)	3,741,917
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	$	416,423	11,762	—	428,185
Other current liabilities		101,760	—	—	101,760
		518,183	11,762	—	529,945
Long-term debt		613,294	—	—	613,294
Other liabilities		362,217	58,328	—	420,545
Total liabilities		1,493,694	70,090	—	1,563,784
Net assets:					
Unrestricted		1,938,119	69,911	—	2,008,030
Temporarily restricted		167,269	109,161	(161,275)	115,155
Permanently restricted		54,948	52,853	(52,853)	54,948
Total net assets		2,160,336	231,925	(214,128)	2,178,133
Total liabilities and net assets	$	3,654,030	302,015	(214,128)	3,741,917

See accompanying independent auditors’ report.

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2014

(Dollars in thousands)

	Obligated Group	Other nonobligated	Eliminations	Allina Health System
Revenues:				
Patient service revenue net of contractual adjustments	$ 3,438,104	27,629	—	3,465,733
Provision for bad debts	(92,777)	(770)	—	(93,547)
Net patient service revenue	3,345,327	26,859	—	3,372,186
Other operating revenue	210,078	34,468	(13,051)	231,495
Total revenues	3,555,405	61,327	(13,051)	3,603,681
Expenses:				
Salaries and benefits	2,221,767	18,707	—	2,240,474
Supplies and services	747,885	39,695	—	787,580
Depreciation and amortization	146,711	1,133	—	147,844
Financing costs	23,748	644	—	24,392
Services provided by (to) related divisions	14,182	(1,131)	(13,051)	—
State assessments and taxes	78,728	753	—	79,481
Utilities and maintenance	73,691	626	—	74,317
Other operating expenses	98,478	5,171	—	103,649
Total expenses	3,405,190	65,598	(13,051)	3,457,737
Operating income (loss)	150,215	(4,271)	—	145,944
Nonoperating gains (losses):				
Investment return	44,943	2,047	—	46,990
Gains on interest rate swap agreements	(42,800)	—	—	(42,800)
Other	(2,490)	(753)	—	(3,243)
Excess of revenues over expenses	$ 149,868	(2,977)	—	146,891

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2014

(Dollars in thousands)

	Obligated Group	Other nonobligated	Eliminations	Allina Health System
Unrestricted net assets:				
Excess of revenues over expenses	$ 149,868	(2,977)	—	146,891
Net assets released from restrictions for capital purposes	3,288	3,792	—	7,080
Transfer net assets released to Obligated Group	5,745	(5,745)	—	—
Amortization of unrealized loss on interest rate swap agreement	874	—	—	874
Capital contributions to nonobligated group affiliates, net	819	(819)	—	—
Other	(651)	(3,600)	—	(4,251)
Increase (decrease) in unrestricted net assets	159,943	(9,349)	—	150,594
Temporarily restricted net assets:				
Contributions	3,288	28,596	—	31,884
Investment gain	140	4,220	—	4,360
Net assets released from restrictions	(3,304)	(17,847)	—	(21,151)
Change in beneficial interests in net assets of Allina Foundations	13,479	—	(13,479)	—
Other	785	352	—	1,137
Increase (decrease) in temporarily restricted net assets	14,388	15,321	(13,479)	16,230
Permanently restricted net assets:				
Contributions for endowment funds	30	366	—	396
Investment gain	32	2	—	34
Change in beneficial interests in net assets of Allina Foundations	376	—	(376)	—
Other	(523)	8	—	(515)
(Decrease) increase in permanently restricted net assets	(85)	376	(376)	(85)
Increase (decrease) in net assets	174,246	6,348	(13,855)	166,739
Net assets at beginning of year	1,986,090	225,577	(200,273)	2,011,394
Net assets at end of year	$ 2,160,336	231,925	(214,128)	2,178,133

See accompanying independent auditors’ report.

ALLINA HEALTH SYSTEM

Operating Information
For the years ended December 31, 2015 and 2014

	Abbott Northwestern Hospital		United Hospital		Mercy Hospital		Unity Hospital		Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
I. Hospital Volume												
Inpatient Admissions	36,107	36,851	22,251	22,158	19,498	19,037	11,179	11,410	14,495	13,292	103,530	102,748
Patient Days	163,262	164,332	94,193	92,882	70,812	71,360	42,280	43,916	48,627	46,077	419,174	418,567
Outpatient Admissions	433,505	406,195	174,345	169,233	150,572	143,247	91,020	91,231	484,684	421,543	1,334,126	1,231,449
Adjusted Admissions	57,500	55,493	36,270	34,555	33,074	30,689	17,647	17,091	37,983	32,788	182,474	170,616
Surgeries	24,273	24,941	15,083	14,484	14,005	14,285	6,211	5,940	28,690	32,149	88,262	91,799
Emergency Room Visits	60,424	59,166	49,492	50,030	60,918	58,826	48,596	48,808	97,631	81,713	317,061	298,543
Staffed Beds	630	631	391	392	253	254	175	175	287	240	1,736	1,692
II. Other Volume												
Ambulance transports	-	-	-	-	-	-	-	-	70,991	68,228	70,991	68,228
Clinic Work RVUs	1,198,639	880,631	300,939	102,267	170,479	172,355	155,082	33,694	5,270,148	5,473,922	7,095,287	6,662,869
III. Payer Mix (Net Revenue)												
Medicare	32.2%	32.2%	33.2%	33.9%	33.6%	33.5%	36.2%	36.2%	23.8%	23.1%	29.4%	29.3%
Medicaid	9.6%	8.4%	12.3%	11.5%	11.4%	10.8%	15.2%	14.2%	8.5%	8.6%	10.1%	9.5%
Managed Care	53.3%	53.5%	52.0%	53.0%	53.5%	54.0%	45.8%	45.5%	55.9%	59.3%	53.8%	55.3%
Self Pay	1.3%	1.6%	0.8%	1.2%	1.0%	0.9%	2.0%	2.7%	3.8%	5.5%	2.2%	3.0%
Other	3.6%	4.3%	1.7%	0.4%	0.5%	0.8%	0.8%	1.4%	8.0%	3.5%	4.5%	2.9%

(Dollars in millions)

Operating Results

Allina Health's operating margin was 3.9% for the year ended December 31, 2015 compared to 4.0% for the same period in 2014. Operating income increased by $3.1 million when compared to the same period in 2014. Expense growth is driven primarily by acquisitions and investments in strategies to position the organization for health care reform. Work is underway to implement $100 million in cost savings to free up resources to further invest in strategies and position Allina Health to better serve our patients for the long term.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 8.7% for the year ended December 31, 2015 compared to 8.8% for the same period in 2014. Non operating investment return and swap unrealized losses were consistent with market conditions. Allina Health recognized contributions received in the acquisition of District One Hospital of $34.8 million.

EARNINGS SUMMARY	ALLINA HEALTH Year Ended December 31		OBLIGATED GROUP Year Ended December 31	
	2015	2014	2015	2014
EBIDA	$ 330.8	$ 316.4	$ 336.6	320.0
Interest income	1.7	1.7	0.6	0.6
Financing costs	(28.2)	(24.4)	(27.9)	(23.7)
Depreciation and amortization	(155.3)	(147.8)	(154.0)	(146.7)
Operating Income	149.0	145.9	155.3	150.2
Investment return	(33.2)	47.0	(31.1)	45.0
Interest rate swap agreements	(17.6)	(42.8)	(17.6)	(42.8)
Contributions received in acquisitions	34.8	-	34.8	-
Non-operating other	(2.5)	(3.2)	(1.9)	(2.5)
Excess of revenues over expenses	$ 130.5	$ 146.9	$ 139.5	$ 149.9

Revenues

Allina Health's revenue increased $193.2 million, or 5.4% for the year ended December 31, 2015 as compared to 2014 due to increased volumes, District One Hospital and the Health Catalyst arrangement. Hospital net patient revenue growth was 5.4%. Through December 2015, 39.9% of net patient revenue is net inpatient revenue, down from 42.3% in 2014. The clinics (excluding hospital based) experienced an overall 2.1% increase in net patient revenue, due to clinical volumes that grew 6.5% year over year. Outpatient and clinic revenue grew 8.7% over the prior year, from 57.7% of net patient revenue in 2014 to 60.1% in 2015.

REVENUE	ALLINA HEALTH Year Ended December 31		OBLIGATED GROUP Year Ended December 31	
	2015	2014	2015	2014
Hospital Net Patient Revenue	$ 2,680.2	$ 2,544.0	$ 2,680.2	$ 2,544.0
Change	5.4%		5.4%	
Clinic Net Patient Revenue	698.4	681.3	681.1	664.6
Change	2.5%		2.5%	
Other Net Patient Revenue	242.4	240.4	242.0	229.5
Change	0.8%		5.4%	
Bad Debt	(98.5)	(93.5)	(98.8)	(92.8)
Change	5.3%		6.5%	
Other Revenue	274.4	231.5	249.2	210.1
Change	18.5%		18.6%	
Total Revenue	$ 3,796.9	$ 3,603.7	$ 3,753.7	$ 3,555.4
Change	5.4%		5.6%	

Payer Mix

Allina Health net patient revenue reflects a consistent significant concentration of revenue from managed care (negotiated payer) sources. The payer mix schedule below combines Medicare managed care products with Medicare and managed care state public program products with Medicaid. The single largest payer within contracted payers was Blue Cross Blue Shield at 24.9% of total net patient revenue and 17.4% of total gross patient revenue for the year ended December 31, 2015.

ALLINA HEALTH	**Net Patient Revenue** December 31		**Gross Patient Revenue** December 31	
PAYER MIX PERCENTAGE	2015	2014	2015	2014
Medicare	29.4%	29.3%	41.6%	40.6%
Medicaid	10.1	9.5	15.1	14.4
Contracted Payers	53.8	55.3	37.6	39.2
Self Pay	2.2	3.0	1.7	2.4
Other	4.5	2.9	4.0	3.4
Total	100.0%	100.0%	100.0%	100.0%

Uncompensated Care

Allina Health provides medical care without charge or at reduced cost to patients who live in the communities that it serves through the provision of charity care. Allina Health identifies patients that qualify for charity care based upon certain guidelines related to a patient's ability to pay for services. The Allina Health hospitals provide a discount on billed charges for medically necessary care delivered to patients who are uninsured, underinsured, and ineligible for government programs or otherwise medically indigent. Allina Health has also created a billing and collection policy in connection with a state-wide agreement with the Minnesota Attorney General's Office.

Uncompensated care (the combination of uninsured, charity care, and bad debt expense) decreased $15.2 million in gross charges, or 8.6% in 2015 compared to prior year. Decreases in charity care and uninsured discounts are attributable to increases in Medicaid and Prepaid Medical Assistance Program (PMAP) enrollment under MNsure, the State of Minnesota's solution under the federally mandated Accountable Care Act (ACA).

The schedule below reflects uncompensated care at gross charges forgone. The estimated cost of providing charity care, by applying a cost to charge ratio to charges identified as charity care, was $14.8 million and $21.4 million for the year ended December 31, 2015 and 2014, respectively.

UNCOMPENSATED CARE AT GROSS CHARGES	ALLINA HEALTH Year Ended December 31 2015	2014
Uninsured Discount	$ 26.8	$ 32.6
Charity Care Discount	36.2	50.6
Bad Debt Expense	98.5	93.5
Total Uncompensated Care	$ 161.5	$ 176.7
Change	-8.6%	
Total Uncompensated Care as a % of Gross Patient Charges	1.9%	2.2%

Volume

Allina Health experienced stable inpatient volumes and strong outpatient volumes in the year ended December 31, 2015. Inpatient admissions increased by 0.8%, and inpatient surgeries increased by 1.8%, respectively for the year ended December 31, 2015 from 2014. Outpatient hospital admissions and clinic work RVUs increased 8.3%, and 6.5%, respectively while outpatient surgeries decreased by 6.6% due to shifting outpatient surgeries to a new WestHealth Ambulatory Surgery Center joint venture in 2015. The growth of outpatient compared to inpatient is expected as Allina Health becomes more successful in quality and care goals for patients with chronic conditions and is consistent with the longer term goals of health care reform.

VOLUME STATISTICS	ALLINA HEALTH Year Ended December 31	
	2015	2014
Inpatient Hospital Admissions	103,530	102,748
Inpatient change from prior period	0.8%	
Observation days	21,372	19,192
Observation days change from prior period	11.4%	
Outpatient Hospital Admissions	1,334,126	1,231,449
Outpatient change from prior period	8.3%	
Average Length of Stay (days)	4.0	4.1
Hospital Patient Days	419,174	418,567
Patient days change from prior period	0.1%	
Hospital Occupancy (based on staffed beds)	68.0%	70.9%
Inpatient Surgeries	30,388	29,861
Outpatient Surgeries	57,874	61,938
Total Surgeries	88,262	91,799
Total surgeries change from prior period	-3.9%	
Clinic Work RVUs	7,095,287	6,662,869
Work RVUs change from prior period	6.5%	
Total Case Mix	1.45	1.42
Medicare Case Mix	1.80	1.74

Market Share

Allina Health continues to hold its market leading position. The following market share data from the Minnesota Hospital Association (MHA) statistical database for the eleven county metropolitan hospital inpatient market is updated as of September 30, 2015.

MARKET SHARE STATISTICS	ALLINA HEALTH September 30 2015	ALLINA HEALTH December 31 2014
Allina Metro Hospital Inpatient Market Share *	31.5%	31.6%
Change in Total Metro Market Volume**	0.8%	-0.9%

* Hospitals Include: Abbott Northwestern, United, Mercy, Unity, Phillips Eye Institute, Regina and St. Francis

** year over year change of the eleven county metro hospital inpatient market volume for the twelve months ending September 2015 and December 2014

Non-Operating Gains & Losses

Allina Health investments include a diversified portfolio of money market, fixed income, equity, hedge funds, private equity, and real asset investments. The total return on unrestricted long term investments was -1.9% for the year ended December 31, 2015, consistent with the market conditions for the period. To mitigate changes in interest rates on debt, Allina Health has entered into fixed-payer swaps, which are marked to market.

NON-OPERATING GAINS	ALLINA HEALTH Year Ended December 31 2015	ALLINA HEALTH Year Ended December 31 2014	OBLIGATED GROUP Year Ended December 31 2015	OBLIGATED GROUP Year Ended December 31 2014
Interest and dividends	$ 23.9	$ 22.0	$ 23.9	$ 22.0
Realized (losses) gains on sales of investments	(2.2)	14.3	(2.5)	13.1
Unrealized (losses) gains on investments	(54.9)	10.7	(52.5)	9.9
Interest rate swap agreements - fair value	(4.2)	(29.3)	(4.2)	(29.3)
Interest rate swap agreements - counterparty interest	(13.4)	(13.5)	(13.4)	(13.5)
Contributions received in acquisitions	34.8	-	34.8	-
Other	(2.5)	(3.2)	(1.9)	(2.5)
Total non-operating gains	$ (18.5)	$ 1.0	$ (15.8)	$ (0.3)

Balance Sheet and Cash Flow

Allina Health had 204 days cash on hand (DCOH) as of December 31, 2015, compared with 190 days at December 31, 2014. The increase in DCOH is due to the issuance of new debt of $250 million in the third quarter.

Leverage increased to 28.9% at December 31, 2015 up from 24.0% in December 31, 2014. Cash to debt is 222.7% as of December 31, 2015 compared to 271.3% at December 31, 2014.

System level capital spending was $218.3 million for the year ended December 31, 2015 compared to capital spending of $169.7 million for the same time period in 2014.

BALANCE SHEET & LIQUIDITY STATISTICS	ALLINA HEALTH		OBLIGATED GROUP	
	December 31 2015	December 31 2014	December 31 2015	December 31 2014
Unrestricted cash & investments	$ 1,947.4	$ 1,719.0	$ 1,883.1	$ 1,650.7
Days cash on hand	204	190	200	185
Total Debt	$ 874.4	$ 633.6	$ 869.1	$ 633.6
Unrestricted net assets	$ 2,152.1	$ 2,008.0	$ 2,091.1	$ 1,938.1
Debt to capitalization *	28.9%	24.0%	30.7%	26.1%
Patient receivables	$ 465.1	$ 419.5	$ 443.3	$ 397.0
Days revenue in receivables, net	48	45	46	43
Cash to debt	223%	271%	217%	260%
Historical annual debt service coverage	7.0	6.6	7.1	6.6

* Obligated Group includes Letters of Credit and Surety indebtedness

DAYS CASH ON HAND ROLL-FORWARD	ALLINA HEALTH	
	Cash	**Days**
December 31, 2014	$1,719.0	189.6
Operations	246.3	25.7
Growth in daily expenditures		(9.9)
Investment losses	(33.2)	(3.5)
Proceeds from sales of properties	4.3	0.5
Capital expenditures	(218.1)	(22.8)
Proceeds from issuance of debt	250.0	26.1
Debt payments	(20.9)	(2.2)
December 31, 2015	$1,947.4	203.5

DEBT TO CAPITALIZATON ROLL-FORWARD	ALLINA HEALTH		
	Debt	**Equity**	**Cap %**
December 31, 2014	$ 633.6	$ 2,008.0	24.0%
Operating income		149.0	
Investment losses		(33.2)	
Loss on interest rate swap agreements		(17.6)	
Other non-operating losses		(2.5)	
Contributions received in acquisitions		34.8	
Other changes in net assets		13.6	
Proceeds from issuance of long-term debt	250.0		
New capitalized leases	10.8		
Other acquired debt	1.4		
Debt payments and amortization of bond premium, net	(21.4)		
December 31, 2015	$874.4	$2,152.1	28.9%

Summary

Allina Health experienced good financial results in the year ending December 31, 2015, reflecting strong expense management and improved volumes. Work is underway to implement an additional $100 million in cost savings. Allina Health will also invest in the strategies that will position us to best serve our patients for the long term. Allina Health remains committed to maintaining a strong balance sheet.

(Dollars in thousands)

Estimated Annual Debt Service Requirements

The following table sets forth, for each calendar year, estimated amounts for payments of principal and interest on indebtedness secured by an Obligation under the Master Trust Indenture.

Consolidated Debt Schedule
Allina Health System

Calendar Year Ending December 31	Principal	Interest	Total Debt Service
2016	21,350	40,329	61,679
2017	22,125	39,491	61,616
2018	22,935	38,503	61,438
2019	24,130	37,303	61,433
2020	25,295	36,132	61,427
2021	26,490	34,952	61,442
2022	27,750	33,704	61,454
2023	29,090	32,444	61,534
2024	30,475	30,974	61,449
2025	29,655	29,532	59,187
2026	30,995	28,202	59,197
2027	32,400	26,808	59,208
2028	33,875	25,390	59,265
2029	31,715	23,811	55,526
2030	33,130	22,350	55,480
2031	34,350	21,160	55,510
2032	35,610	19,926	55,536
2033	36,925	16,063	52,988
2034	38,280	14,755	53,035
2035	39,680	13,378	53,058
2036	-	12,013	12,013
2037	-	12,013	12,013
2038	-	12,013	12,013
2039	-	12,013	12,013
2040	-	12,013	12,013
2041	50,000	12,013	62,013
2042	50,000	9,610	59,610
2043	50,000	7,208	57,208
2044	50,000	4,805	54,805
2045	50,000	2,403	52,403
	$ 856,255	$ 661,311	$ 1,517,566

This table assumes a long term average annual interest rate of 3.25% on $17.0 million in principal amount of outstanding obligations which were issued at a variable interest rate and not hedged. This table also includes an assumed differential on $300.1 million of fixed payer interest rate swaps and an additional $50 million unhedged swap. The indebtedness not secured by an obligation issued under the Master Trust Indenture totaling $15.4 million has been excluded from the table.

Allina Health System
Additional Annual Financial Disclosure
Year Ended December 31, 2015
(Dollars in thousands)

Coverage of Estimated Annual Debt Service Requirements

The following tables set forth, for fiscal years ended December 31, 2015 and 2014 (i) the amounts reflected in the consolidated financial statements of Allina Health available to pay debt service and the extent to which such amounts covered debt service requirements on the actual long-term indebtedness of Allina Health outstanding during these periods and (ii) the amounts reflected in the consolidated financial statements of the Obligated Group, available to pay debt service and the extent to which such amounts covered debt service requirements on actual long-term indebtedness of the Obligated Group entities outstanding during these periods. Under generally accepted accounting principles, Allina Health's consolidated financial statements, from which the data set forth in the first of the following tables are derived, are required to include the amounts of certain affiliates and subsidiaries that are not members of the Obligated Group.

Allina Health Debt Service Coverage Ratios	December 31, 2015	December 31, 2014
Excess of Revenues Over Expenses	$ 130,521	$ 146,891
Unrealized (Gain) Loss on Investments	54,911	(10,787)
Unrealized Loss (Gain) on Interest Rate Swap Agreements	17,608	42,800
Financing Costs (1)	22,264	18,991
Depreciation and Amortization	155,253	147,844
Income Available to Pay Debt Service	$ 380,557	$ 345,739
Actual Long-term Debt Service	$ 54,665	$ 52,204
Historical Coverage Ratio	7.0 X	6.6 X
Pro-forma Maximum Annual Debt Service (2)	$ 64,413	$ 50,341
Coverage Ratio of Pro-forma Maximum Annual Debt Service	5.9 X	6.9 X

Obligated Group Debt Service Coverage Ratios	December 31, 2015	December 31, 2014
Excess of Revenues Over Expenses	$ 139,478	$ 149,868
Unrealized (Gain) Loss on Investments	52,510	(9,907)
Unrealized Loss (Gain) on Interest Rate Swap Agreements	17,608	42,800
Financing Costs (1)	21,880	18,347
Depreciation and Amortization	153,981	146,711
Income Available to Pay Debt Service	$ 385,457	$ 347,819
Actual Long-term Debt Service	$ 54,093	$ 51,560
Historical Coverage Ratio	7.1 X	6.6 X
Pro-forma Maximum Annual Debt Service (2) (3)	$ 63,750	$ 50,341
Coverage Ratio of Pro-forma Maximum Annual Debt Service	6.0 X	6.9 X

(1) Excludes financing costs related to bank charges of $5,981 in 2015 and $5,401 in 2014.

(2) Maximum annual principal and interest payments on long-term debt for any succeeding fiscal year assuming an interest rate of 3.25%, as appropriate, on all variable rate debt. This analysis also factors in the anticipated effect of fixed payer interest rate swaps with notional amounts of $164.5 million (2009B&C), $120.5 million (2007C), $15.1 million (1998A), and $50 million (2001). Other funded debt included in the pro-forma maximum annual debt service but not secured by an Obligation issued under the Master Trust Indenture has an outstanding balance of $15.4 million as of December 31, 2015.

(3) The pro-forma maximum annual debt service for the Obligated Group under the Master Trust Indenture debt is $62.0 million for the period ended December 31, 2015. The pro-forma coverage ratio on only the Master Trust Indenture Debt is 6.2x for the Obligated Group at December 31, 2015.

Allina Health System
Additional Annual Financial Disclosure
Year Ended December 31, 2015
(Dollars in thousands)

Capitalization Table

Capitalization	December 31, 2015	December 31, 2014
Series 2015 Bonds	$ 250,000	$ -
Series 2009A Bonds	$ 173,415	$ 175,275
Series 2009BC Bonds	164,525	164,525
Series 2007A Bonds	97,030	105,415
Series 2007C Bonds	120,500	121,250
Series 1998A Bonds	14,575	14,575
Series 1993B Bonds	17,000	24,900
Series 2014 Note	19,210	20,165
All Other	15,371	4,216
Unamortized Portion of Original Issue Premium (Discount)	2,830	3,320
Total Allina Health Long-term Debt	874,456	633,641
Less: Non-Obligated Group Debt	(5,314)	-
Total Obligated Group Debt	$ 869,142	$ 633,641
Allina Health		
Unrestricted Net Assets	$ 2,152,102	$ 2,008,030
Total Consolidated Long-term Debt & Unrestricted Net Assets	$ 3,026,558	$ 2,641,671
Debt to Capitalization Ratio	28.9%	24.0%
Obligated Group		
Unrestricted Net Assets of the Obligated Group	$ 2,091,052	$ 1,938,119
Total Long-term Debt* & Unrestricted Net Assets	$ 3,015,605	$ 2,624,239
Debt to Capitalization Ratio*	30.7%	26.1%

*Includes Letters of Credit and Surety indebtedness.

(Dollars in thousands)

Debt Structure

Allina Health's current debt structure as of December 31, 2015

Series	$ Outstanding	Structure	Final Maturity	Credit Enhancement	YTD Average Int. Rate*
2015	250,000	Fixed Rate	2045	None	4.81%
2014	19,210	Fixed Rate	2028	None	2.55%
2009A	173,415	Fixed Rate	2029	None	5.24%
2009B	114,525	Daily VRDB	2035	JP Morgan LOC	0.03%
2009C	50,000	Weekly VRDB	2035	Wells Fargo LOC	0.03%
2007A	97,030	Fixed Rate	2022	MBIA Insured	5.00%
2007C	120,500	Weekly VRDB	2034	Wells Fargo LOC	0.04%
1998A	14,575	Auction Rate	2022	MBIA Insured	0.14%
1993B	17,000	Auction Rate	2017	Ambac Insured	0.06%
	856,255	Total Bonds			
Other ***	18,201				
	874,456	**Total Debt**			

Fixed Rate	$ 539,655	61.7%	
Hedged Variable Rate**	299,600	34.3%	(2009B, 2009C, 2007C & 1998A)
Unhedged Variable Rate	17,000	1.9%	
Other	18,201	2.1%	
Total	**$ 874,456**		

* Interest rates are interest cost only, and do not include premium/discount, administrative, credit facility, broker or other costs related to the issuance of the bonds.

** There is a $50,000 swap that does not have any underlying associated debt and the 1998A swap has $500 in additional notional value relative to the outstanding debt. If the $50,000 swap and additional $500 1998A notional were applied to current unhedged variable rate bonds, all bonds would be fixed or hedged, with hedged variable rate debt making up 36.2% of total debt, totaling $316,600.

*** Other debt includes any premiums or discounts associated with fixed rate debt, capital leases, other small notes and loans that are included in debt on the balance sheet.

Allina Health provides liquidity support for its Variable Rate Demand Bonds through the use of bank issued letters of credit. The chart below outlines the termination triggers for ratings downgrades and the term out provisions related to the holding of bank bonds. Allina Health does not currently have any bank bonds, nor has Allina Health ever had bank bonds.

Liquidity Support

Debt	Liquidity Support	Amount	Expiration	Termination Trigger - Rating	Term-Out Provisions	Counterparty
2009B	Letter of Credit	$ 114,525	January 2017	Allina Rating Less Than BBB	5 Year	JP Morgan
2009C	Letter of Credit	50,000	January 2017	Allina Rating Less Than BBB	5 Year	Wells Fargo
2007C	Letter of Credit	120,500	January 2017	Allina Rating Less Than BBB	5 Year	Wells Fargo
		$ 285,025				

(Dollars in thousands)

Health Care Delivery Facilities and Operations

Allina Health is a direct provider of health care through its hospitals and physician clinics. A description of Allina Health's facilities and services follows.

Hospital Acute Care Beds

The hospitals owned (with the exception of St Francis) and operated by Allina Health and the locations thereof are described in the following table. All of the facilities are located in Minnesota, except for River Falls Area Hospital, which is located in Wisconsin.

Acute Care Hospitals

Hospital Name	Location	December 31, 2015 Licensed	December 31, 2015 Staffed Beds
Metropolitan Hospitals			
Abbott Northwestern Hospital	Minneapolis, MN	952	630
United Hospital	Saint Paul, MN	546	391
Mercy Hospital	Coon Rapids, MN	271	253
Unity Hospital	Fridley, MN	275	175
Phillips Eye Institute	Minneapolis, MN	20	8
Total Metropolitan Hospitals		2,064	1,457
Regional Hospitals			
Buffalo Hospital	Buffalo, MN	65	32
Cambridge Memorial Hospital	Cambridge, MN	86	75
District One Hospital	Faribault, MN	49	41
New Ulm Medical Center	New Ulm, MN	62	35
Owatonna Hospital	Owatonna, MN	43	43
Regina Hospital	Hastings, MN	57	47
River Falls Area Hospital	River Falls, WI	25	6
Total Regional Hospitals		387	279
Total - Allina Health owned and operated		2,451	1,736
St. Francis Regional (1)	Shakopee, MN	93	53
Total - All Hospitals		2,544	1,789

(1) St. Francis Regional Medical Center (SFRMC) is operated in partnership with HealthPartners, Inc. and Critical Access Group (formally ECHC, also known as Essentia Community Hospitals and Clinics) pursuant to a joint membership agreement whereby Allina Health, HealthPartners Health Services, and Critical Access Group are the joint members of SFRMC. Allina Health has certain reserved powers over the hospital to ensure the financial integrity of the hospital and has authority and responsibility for the day-to-day operations.

(Dollars in thousands)

Allina Health Clinic Division

The Allina Health Clinic Division consists of clinics throughout Minnesota and Wisconsin. As a division, the goal is to build on the complementary strengths of each clinic by combining administrative functions and integrating the vast array of clinic locations and mix of primary and specialty providers and services. Using the same electronic medical record system enables the division to share best practices for improving care and safety for all of its patients.

The following table indicates the size distribution of the medical staff FTEs of the various Allina Health Clinic sites.

Number of Clinics Employing:			
1-5 Physician FTEs	6-10 Physician FTEs	11-15 Physician FTEs	16+ Physician FTEs
26	13	15	13

The Allina Health Clinic Division is a multi-specialty medical group that offers primary and specialty care services in the Minneapolis – St. Paul metro area and elsewhere in Minnesota and Wisconsin. Primary care providers deliver routine care through Family Medicine, Internal Medicine, Pediatric Medicine, and Obstetrics & Gynecology practices. Specialists provide care for more specific health needs such as mental health, eye services, diabetes and chiropractic care.

The Allina Health Clinic Division includes 67 clinics and three hospitalist programs, employing approximately 735 physicians. Allina Health Clinic locations vary significantly in terms of the number of physicians at each site. The variation in size and geographic distribution of the clinics is due in part to the history of the division's development. The group continues to increase in size through internal growth and the addition of physician specialists.

Consolidated Utilization Table

The following table consolidates Allina Health's utilization information for the years ended December 31, 2015 and 2014.

UTILIZATION STATISTICS	Year Ended December 31 2015	December 31 2014
Hospitals		
Admissions *	103,530	102,748
Patient Days *	419,174	418,567
Average length of stay	4.0	4.1
Observation days	21,372	19,192
Licensed beds	2,451	2,436
Staffed beds	1,736	1,692
Outpatient admissions	1,334,126	1,231,449
Emergency room visits	317,061	298,543
Inpatient surgical procedures	30,388	29,861
Outpatient surgical procedures	57,874	61,938
Physicians and allied professionals		
Work RVUs	7,095,287	6,662,869
Provider FTE's	1,145	1,184
Ambulance transports	70,991	68,228

* Results exclude newborns.

(Dollars in thousands)

Market Share by Specialty

The following table provides Allina Health's metropolitan inpatient market share by specialty for the nine months ended September 30, 2015 and inpatient gross revenue for Allina Health's metropolitan hospitals by specialty for the year ended December 31, 2015.

Inpatient Specialty Data	Allina Health Metropolitan Market Share (1)	Minnesota Metro Hosp. Discharges by Specialty (1)	Percent of Inpatient Gross Revenues (2)
Cardiology	39.6%	11.3%	23.8%
Chemical Dependency	32.2%	2.3%	1.2%
General Medicine	28.8%	27.3%	17.7%
General Surgery	33.1%	7.2%	13.2%
Gynecology	35.0%	0.9%	0.8%
Neurology	29.1%	7.0%	7.5%
Obstetrics	32.4%	14.8%	8.1%
Oncology	28.4%	2.7%	3.0%
Ophthalmology	21.9%	0.1%	0.0%
Orthopedics	30.7%	12.6%	15.0%
Otorhinolaryngology	19.7%	1.1%	0.4%
Psychiatry	30.9%	7.5%	5.3%
Rehabilitation	38.9%	0.8%	1.0%
Urology	30.4%	4.4%	3.0%
Total	31.5%	100.0%	100.0%

(1) Minnesota Hospital Association
(2) Internal Data for year ended December 31, 2015

Allina Health System

Additional Annual Financial Disclosure

Year Ended December 31, 2015

(Dollars in thousands)

Market Share by Hospital

Discharges by Metropolitan Hospitals

(Excluding Newborns/Neonatal)

Hospital Name	Discharges 2010	2011	2012	2013	2014	2015 3Q	Market Share Percentage 2010	2015 3Q	Change
Allina Health									
Abbott Northwestern	37,628	37,286	37,012	37,809	36,603	26,682	12.0%	11.9%	-0.1%
United Hospital	24,683	24,198	23,685	22,477	21,821	16,335	7.8%	7.2%	-0.6%
Mercy Hospital	19,708	20,800	20,158	19,625	18,683	14,133	6.3%	6.3%	0.0%
Unity Hospital	12,783	12,865	12,180	12,116	11,241	8,314	4.0%	3.7%	-0.3%
PEI*	319	191	135	122	6	15	0.1%	0.0%	-0.1%
St. Francis Regional	5,876	5,597	5,501	5,266	5,192	4,112	1.9%	1.8%	-0.1%
Regina - Hastings**	1,864	1,751	2,075	1,932	1,771	1,372	0.6%	0.6%	0.0%
	102,861	102,688	100,746	99,347	95,317	70,963	32.7%	31.5%	-1.2%
Fairview									
Fairview Ridges	10,785	10,977	10,829	10,336	10,561	7,870	3.4%	3.5%	0.1%
Fairview Univ Med Ctr	31,907	31,071	32,650	32,751	33,151	24,158	10.2%	10.7%	0.5%
Fairview Southdale	18,368	18,200	17,982	17,059	17,463	12,735	5.8%	5.6%	-0.2%
	61,060	60,248	61,461	60,146	61,175	44,763	19.4%	19.8%	0.4%
HealthEast									
St. Johns	13,965	14,111	13,950	12,696	11,859	8,717	4.4%	3.9%	-0.5%
St. Josephs	13,661	13,252	12,217	11,417	10,780	7,759	4.4%	3.4%	-1.0%
Woodwinds	7,190	7,103	7,514	7,370	7,175	5,790	2.3%	2.6%	0.3%
	34,816	34,466	33,681	31,483	29,814	22,266	11.1%	9.9%	-1.2%
North Memorial	23,496	22,552	21,407	18,728	16,943	13,121	7.5%	5.8%	-1.7%
Maple Grove Hospital	3,644	5,872	7,061	7,653	8,321	6,624	1.2%	2.9%	1.7%
Methodist Hospital	21,677	21,653	21,139	20,066	20,326	16,140	6.9%	7.2%	0.3%
Regions (St. Paul Ramsey)	23,851	24,729	23,987	23,447	24,830	18,113	7.6%	8.0%	0.4%
Hennepin County Med Ctr	20,201	19,928	20,388	20,776	20,562	15,644	6.4%	6.9%	0.5%
Ridgeview - Waconia	5,666	5,668	5,945	5,875	6,124	4,574	1.8%	2.0%	0.2%
Children's									
Children's - Mpls	6,381	6,368	6,492	6,282	6,864	5,166	2.0%	2.3%	0.3%
Children's - St. Paul	4,387	4,213	4,042	4,296	4,963	3,701	1.4%	1.7%	0.3%
	10,768	10,581	10,534	10,578	11,827	8,867	3.4%	4.0%	0.6%
Lakeview - Stillwater	4,104	3,635	3,540	3,546	3,684	2,725	1.3%	1.2%	-0.1%
Gillette Children's	2,229	2,183	2,329	2,319	2,352	1,807	0.7%	0.8%	0.1%
Totals	314,373	314,203	312,218	303,964	301,275	225,607	100.0%	100.0%	0.0%

Source: Minnesota Hospital Association

*PEI experienced a significant shift from inpatient to observation under the Centers for Medicare and Medicaid Service (CMS) "Two Midnight Rule."

** As of September 1, 2013, Regina is wholly owned by Allina Health

(Dollars in thousands)

Market Share by Program

Allina Health Market Share by Program (based on number of discharges)							
	Percent of Market						Change
Service	2010	2011	2012	2013	2014	2015 Q3	'15 Q3 v. 2010
Cardiology	39.8%	40.6%	41.9%	42.6%	41.5%	39.6%	-0.2%
Chemical Dependency	30.5%	33.2%	31.6%	32.0%	31.8%	32.2%	1.7%
General Medicine	28.4%	29.9%	29.1%	29.3%	28.4%	28.8%	0.4%
General Surgery	31.4%	32.3%	31.9%	34.0%	33.5%	33.1%	1.7%
Gynecology	40.0%	41.3%	38.8%	37.5%	37.8%	35.0%	-5.0%
Neurology	31.5%	32.3%	31.5%	31.2%	30.3%	29.1%	-2.5%
Obstetrics	31.3%	31.1%	30.8%	32.4%	32.4%	32.4%	1.1%
Oncology	29.6%	29.3%	28.8%	30.9%	28.1%	28.4%	-1.2%
Ophthalmology	54.5%	42.3%	39.0%	37.8%	22.4%	21.9%	-32.6%
Orthopedics	32.4%	33.1%	32.8%	31.8%	29.6%	30.7%	-1.8%
Otorhinolaryngology	19.6%	21.8%	21.0%	23.5%	21.9%	19.7%	0.0%
Psychiatry	29.0%	32.2%	31.7%	32.0%	31.3%	30.9%	1.9%
Rehabilitation	40.2%	38.8%	37.7%	39.1%	35.6%	38.9%	-1.3%
Urology	30.7%	32.0%	30.8%	31.7%	30.8%	30.4%	-0.3%
Total	32.7%	32.7%	32.3%	32.7%	31.6%	31.5%	-1.2%

Source: Minnesota Hospital Association

Allina Discharges by Specialty

Allina Health Discharges by Specialty							
	Percent of Total Discharges						Change
Service	2010	2011	2012	2013	2014	2015 Q3	'15 3Q v. 2010
Cardiology	15.9%	15.3%	16.0%	15.5%	15.0%	14.3%	-1.6%
Chemical Dependency	1.9%	2.1%	2.1%	2.1%	2.3%	2.4%	0.5%
General Medicine	21.9%	23.1%	22.7%	23.1%	23.8%	25.0%	3.1%
General Surgery	8.1%	7.9%	7.8%	7.8%	7.8%	7.6%	-0.5%
Gynecology	2.6%	2.6%	2.1%	1.4%	1.2%	1.0%	-1.6%
Neurology	6.5%	6.5%	6.5%	6.3%	6.5%	6.5%	0.0%
Obstetrics	13.7%	13.1%	13.5%	14.5%	15.1%	15.2%	1.5%
Oncology	2.6%	2.4%	2.4%	2.5%	2.4%	2.4%	-0.2%
Ophthalmology	0.4%	0.3%	0.2%	0.2%	0.1%	0.1%	-0.3%
Orthopedics	13.6%	13.3%	13.3%	12.8%	12.0%	12.2%	-1.4%
Otorhinolaryngology	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	-0.1%
Psychiatry	6.4%	6.9%	7.2%	7.6%	7.8%	7.3%	0.9%
Rehabilitation	1.1%	1.0%	1.0%	1.0%	0.9%	1.0%	-0.1%
Urology	4.5%	4.7%	4.4%	4.4%	4.3%	4.3%	-0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%

Source: Minnesota Hospital Association

Allina Health System
Additional Annual Financial Disclosure
Year Ended December 31, 2015
(Dollars in thousands)

Investment Management

Allina Health maintains its unrestricted investments in cash, money market funds and short term fixed income ("liquidity assets"), which are utilized for liquidity and preservation of capital, and diversified long term investments ("long-term assets"), which are utilized for capital growth. The allocation between liquidity and long-term assets depends on the liquidity and strategic needs of the organization. The following table allocates assets based on investment strategy, and will vary from the fair value footnote, which looks through the investment strategies to the underlying holdings.

Allina Health periodically reviews asset allocation to ensure that the organization is maintaining the appropriate portfolio allocation, considers other asset classes and to address shifts in market expectations.

Unrestriced Cash and Investments - Asset Allocation

Unrestricted Balances	Target	12/31/2015		12/31/2014	
Cash and Money Market		18.0%	349,115	10.5%	180,985
Short-Term Fixed Income		18.0%	351,062	20.8%	357,511
Total Liquidity Assets	**25.0%**	**36.0%**	700,177	**31.3%**	538,496
Long-Term Assets	**75.0%**	**64.0%**	1,247,229	**68.7%**	1,180,534
Total Unrestricted Assets		**100.0%**	1,947,406	**100.0%**	1,719,030

Asset Allocation - Asset Class

Investment	Current Target Allocation	12/31/2015 % of Long Term Assets	12/31/2015 % Total Unrestricted Investments	12/31/2014 % of Long Term Assets	12/31/2014 % Total Unrestricted Investments
Global Equity	32.0%	30.3%	19.4%	31.7%	21.7%
Long/Short Equity Hedge Funds	5.0%	5.6%	3.6%	5.4%	3.7%
Global Fixed Income	35.0%	36.3%	23.2%	35.5%	24.4%
Fund of Hedge Funds	0.0%	0.1%	0.1%	0.1%	0.1%
Opportunistic and Other	20.0%	19.7%	12.6%	19.2%	13.2%
Real Return	8.0%	8.0%	5.1%	8.1%	5.6%
Total Long-Term	100.0%	100.0%	**64.0%**	100.0%	**68.7%**
Cash and Money Market			18.0%		10.5%
Short-Term Fixed Income			18.0%		20.8%
Total Liquidity			**36.0%**		**31.3%**

Allina Health is invested in eight direct hedge funds. Three of these direct hedge funds are invested in distressed debt and strategic fixed income and are included in the opportunistic and other allocation. Five additional long/short equity direct hedge funds are considered a part of the overall global equity component. There is one other fund of hedge funds manager that is in liquidation. Allina Health also has four direct investments in private capital with funding commitments that will be drawn down over the next several years. As of December 31, 2015 these holdings represented approximately 3.4% of unrestricted assets.

(Dollars in thousands)

Liquidity

Days Cash on Hand is calculated for any period tested, as the aggregate amount of unrestricted and unencumbered cash, cash equivalents and investments divided by the quotient of operating expenses less depreciation for the rolling twelve months ended for the period tested divided by 365.

Days Cash on Hand

	For the years ended December 31,			
	2015	2014	2013	2012
Operating Expenses	$3,647,870	$3,457,737	$3,287,126	$3,150,339
Depreciation	(155,253)	(147,844)	(138,145)	(132,564)
Cash Flow Expenses	3,492,617	3,309,893	3,148,981	3,017,775
Daily Average Expenses	$9,569	$9,068	$8,627	$8,268
	As of December 31,			
	2015	2014	2013	2012
Total Cash and Investments	$1,947,405	$1,719,030	$1,571,074	$1,444,359
Days Cash on Hand	**203.5**	**189.6**	**182.1**	**174.7**

Allina Health System

Additional Annual Financial Disclosure

Year Ended December 31, 2015

(Dollars in thousands)

Summary of Key Financial Ratios

Indicators	2015	2014	2013	2012
	Year Ended December 31,			
Liquidity Ratios:				
Monthly DCOH*	174	163	156	123
Annual DCOH**	199	187	181	175
Traditional DCOH	204	190	182	175
Days Cash on Hand (Obligated Group)	200	185	185	181
Cash to Debt	223%	271%	240%	214%
Days Revenue in Receivables, net				
Hospitals	51	48	50	48
Clinics	24	24	25	27
VRDB Debt (in millions)	$285	$286	$290	$303
Monthly liquidity to VRDB debt	585%	516%	470%	334%
Capital Structure Ratios:				
Historical Coverage Ratio (x) (Obligated Group)	7.1	6.6	8.0	6.1
Cushion Ratio (x) (Obligated Group)	34.8	33.2	29.2	28.2
Leverage (Obligated Group)	30.7%	26.1%	28.3%	33.4%
Leverage	28.9%	24.0%	26.0%	31.0%
Profitability Ratios:				
EBIDA Margin	8.7%	9.1%	8.6%	8.7%
Operating Margin	3.9%	4.3%	3.9%	3.9%
Net Income Margin	3.4%	4.3%	9.5%	6.1%
Revenue Growth	5.4%	5.3%	4.3%	3.7%

Note: All ratios are for Allina Health consolidated financial results, unless otherwise noted. Obligated Group includes Aspen, Quello, and Regina as of December 31, 2013.

* Days cash on hand available within 0 – 30 days

** Days cash on hand available within 0 – 365 days